ZSSK CARGO

# ANNUAL REPORT 2012

Železničná spoločnosť
Cargo Slovakia, a. s.

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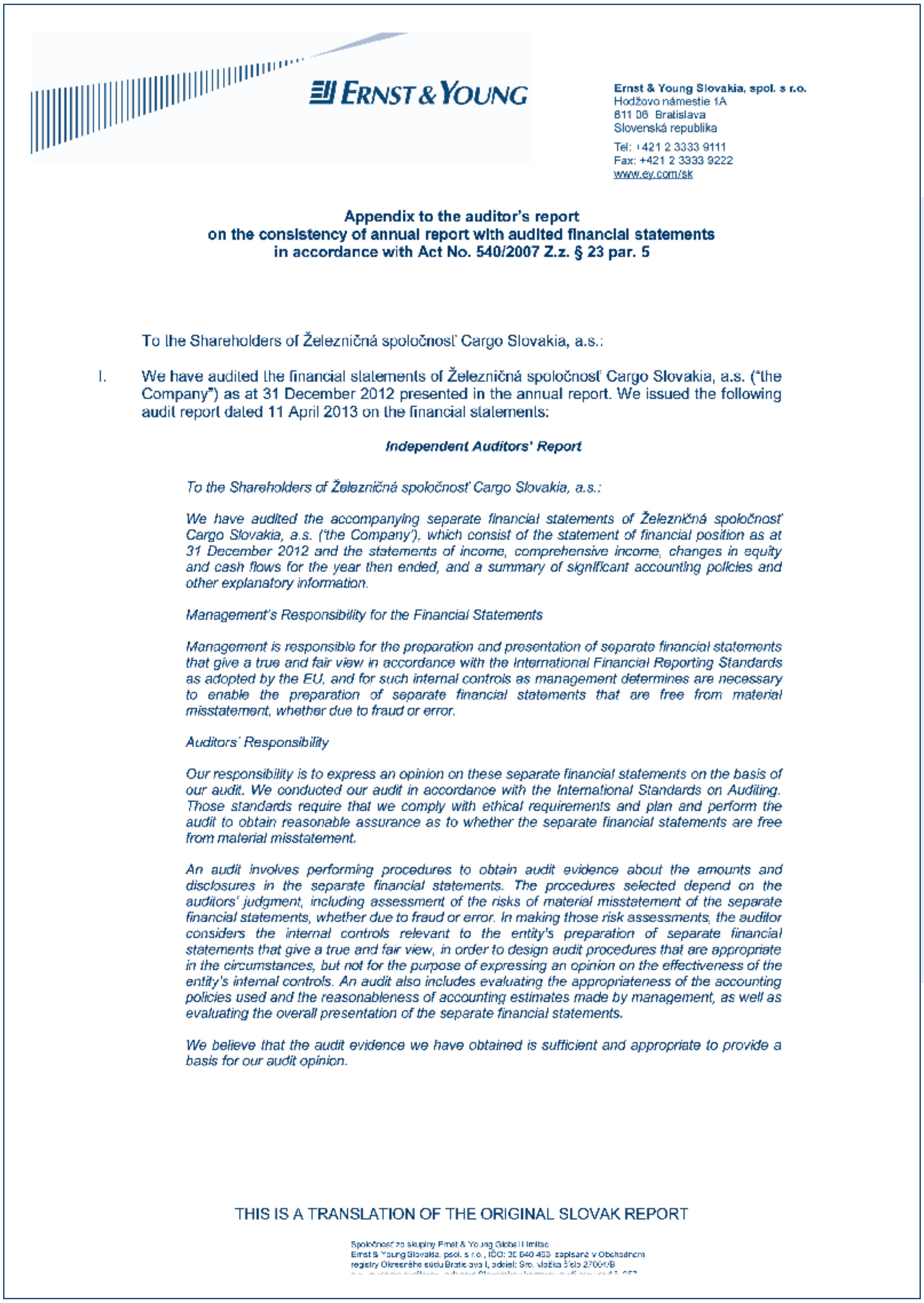
# APPENDIX TO THE AUDITOR'S REPORT



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

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

I. We have audited the financial statements of Železničná spoločnosť Cargo Slovakia, a.s. ("the Company") as at 31 December 2012 presented in the annual report. We issued the following audit report dated 11 April 2013 on the financial statements:

***Independent Auditors' Report***

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

*We have audited the accompanying separate financial statements of Železničná spoločnosť Cargo Slovakia, a.s. ('the Company'), which consist of the statement of financial position as at 31 December 2012 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.*

*Management's Responsibility for the Financial Statements*

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

*Auditors' Responsibility*

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

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

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

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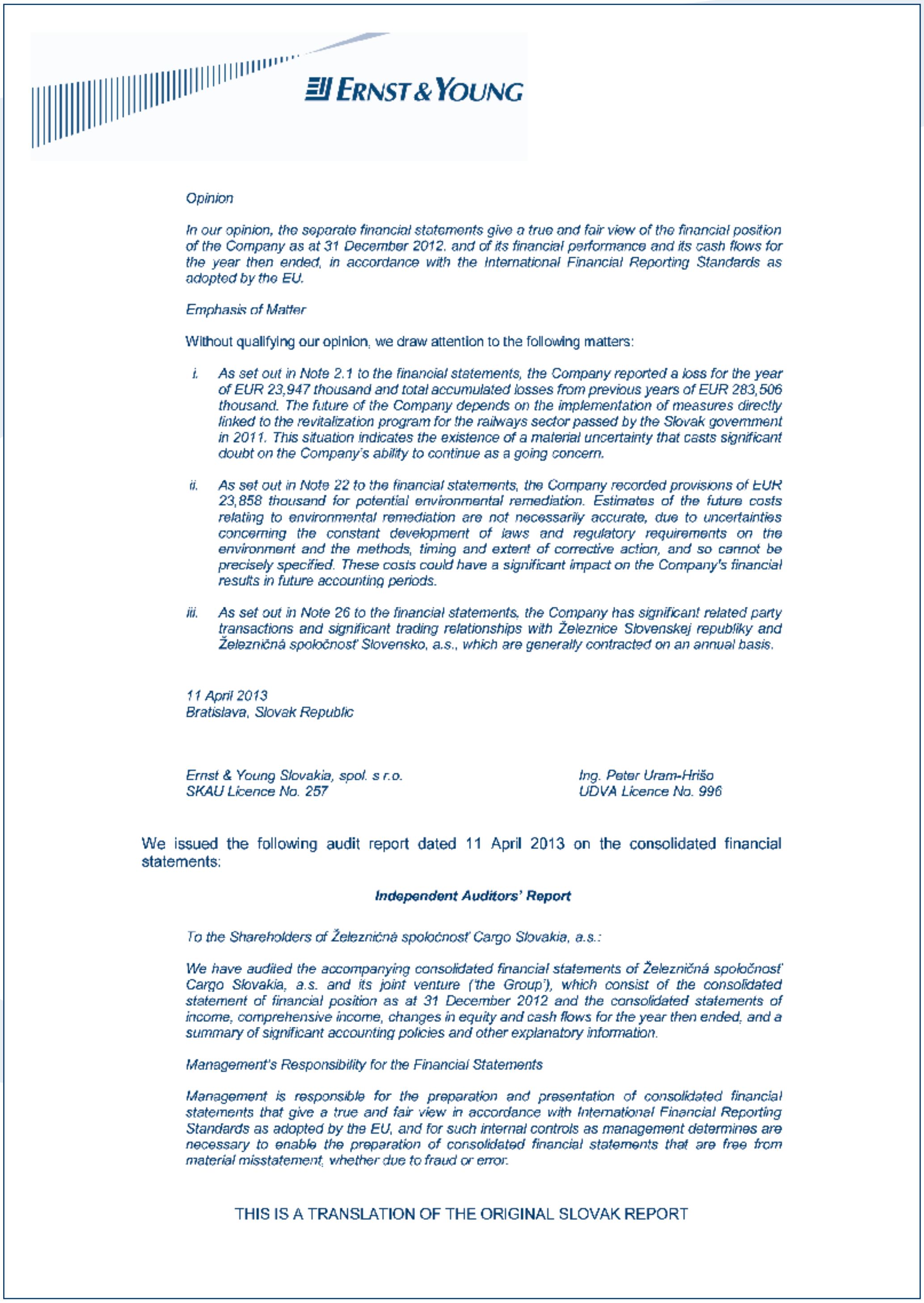

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*Opinion*

*In our opinion, the separate financial statements give a true and fair view of the financial position of the Company as at 31 December 2012, and of its financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards as adopted by the EU.*

*Emphasis of Matter*

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

*i. As set out in Note 2.1 to the financial statements, the Company reported a loss for the year of EUR 23,947 thousand and total accumulated losses from previous years of EUR 283,506 thousand. The future of the Company depends on the implementation of measures directly linked to the revitalization program for the railways sector passed by the Slovak government in 2011. This situation indicates the existence of a material uncertainty that casts significant doubt on the Company's ability to continue as a going concern.*

*ii. As set out in Note 22 to the financial statements, the Company recorded provisions of EUR 23,858 thousand for potential environmental remediation. Estimates of the future costs relating to environmental remediation are not necessarily accurate, due to uncertainties concerning the constant development of laws and regulatory requirements on the environment and the methods, timing and extent of corrective action, and so cannot be precisely specified. These costs could have a significant impact on the Company's financial results in future accounting periods.*

*iii. As set out in Note 26 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.*

*11 April 2013*
*Bratislava, Slovak Republic*

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

We issued the following audit report dated 11 April 2013 on the consolidated financial statements:

***Independent Auditors' Report***

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

*We have audited the accompanying consolidated financial statements of Železničná spoločnosť Cargo Slovakia, a.s. and its joint venture ('the Group'), which consist of the consolidated statement of financial position as at 31 December 2012 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.*

*Management's Responsibility for the Financial Statements*

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

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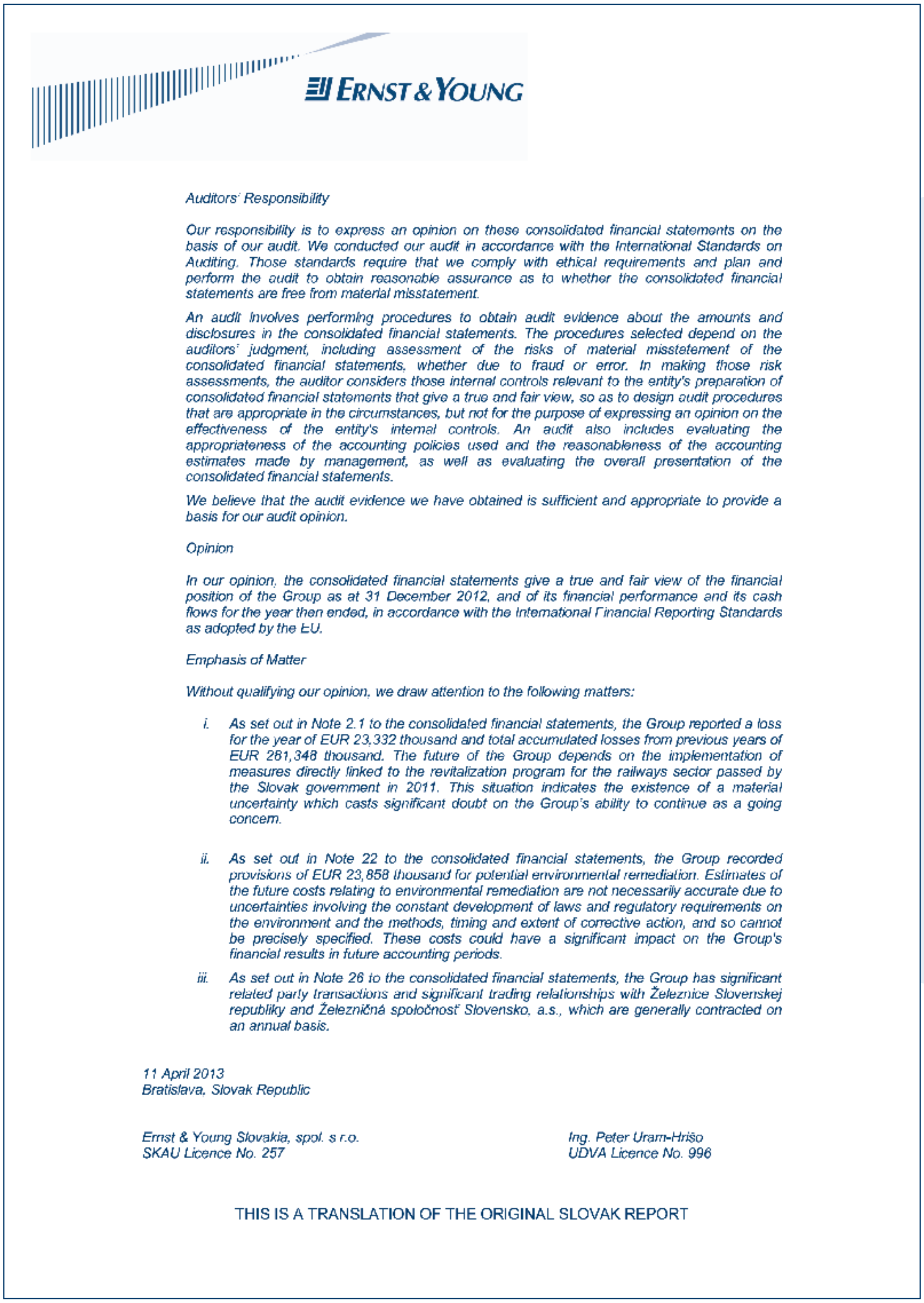

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*Auditors' Responsibility*

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

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

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

*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2012, and of its financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards as adopted by the EU.

*Emphasis of Matter*

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

i. As set out in Note 2.1 to the consolidated financial statements, the Group reported a loss for the year of EUR 23,332 thousand and total accumulated losses from previous years of EUR 261,348 thousand. The future of the Group depends on the implementation of measures directly linked to the revitalization program for the railways sector passed by the Slovak government in 2011. This situation indicates the existence of a material uncertainty which casts significant doubt on the Group's ability to continue as a going concern.

ii. As set out in Note 22 to the consolidated financial statements, the Group recorded provisions of EUR 23,858 thousand for potential environmental remediation. Estimates of the future costs relating to environmental remediation are not necessarily accurate due to uncertainties involving the constant development of laws and regulatory requirements on the environment and the methods, timing and extent of corrective action, and so cannot be precisely specified. These costs could have a significant impact on the Group's financial results in future accounting periods.

iii. As set out in Note 26 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.

11 April 2013
Bratislava, Slovak Republic

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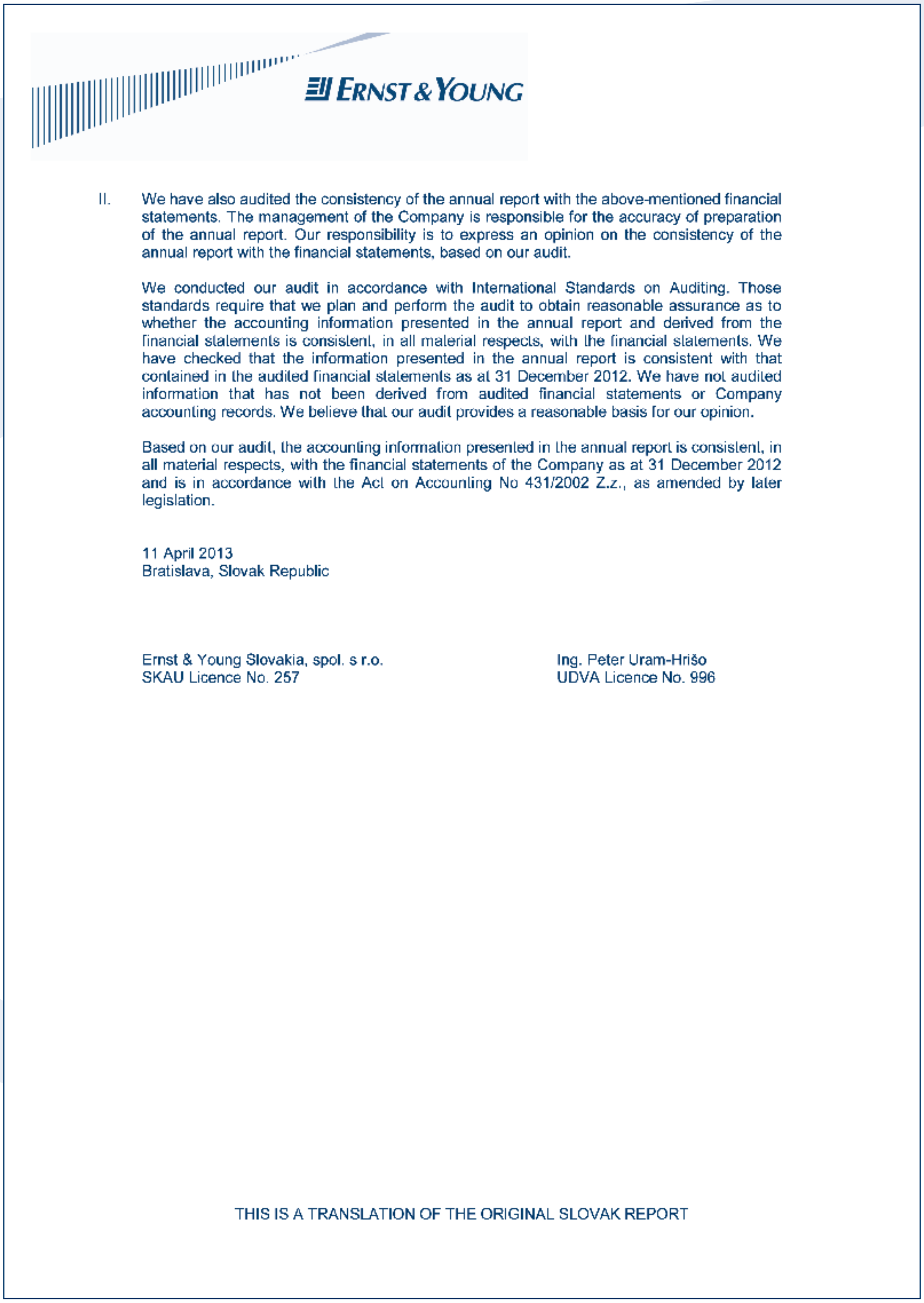

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II. We have also audited the consistency of the annual report with the above-mentioned financial statements. The management of the Company is responsible for the accuracy of preparation of the annual report. Our responsibility is to express an opinion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

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the accounting information presented in the annual report and derived from the financial statements is consistent, in all material respects, with the financial statements. We have checked that the information presented in the annual report is consistent with that contained in the audited financial statements as at 31 December 2012. We have not audited information that has not been derived from audited financial statements or Company accounting records. We believe that our audit provides a reasonable basis for our opinion.

Based on our audit, the accounting information presented in the annual report is consistent, in all material respects, with the financial statements of the Company as at 31 December 2012 and is in accordance with the Act on Accounting No 431/2002 Z.z., as amended by later legislation.

11 April 2013
Bratislava, Slovak Republic

| | |
|---|---|
| Ernst & Young Slovakia, spol. s r.o. | Ing. Peter Uram-Hrišo |
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# FOREWORD FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS AND CEO

In year 2012, companies operating in the rail freight business had to face several challenges. Transportation and shipping services providers experience a difficult period. The demand for these services stagnates as it reflects the economic conditions. Not only of the Slovak but also of the European economy. The Slovak statistics recorded a year-on-year drop on the transport market at the level of ten percent and in the European Union countries this decrease was by six to seven percent.

The railway company Železničná spoločnosť Cargo Slovakia, a.s. also reported decline in performance. In 2012 the company transported 35.3 million tons of goods. This volume represents a year-on-year decline exceeding five percents. The decrease in volumes had a negative impact on revenues and also on the total economy of the company. In 2012 ZSSK CARGO closed economy in the intentions of the plan. The total business result - a loss amounting to EUR 23.947 million was better by EUR 250 thousand than as it was determined in the business plan. The operating economic result (EBITDA) was positive and reached EUR 55 million. The economy of the company is influenced by its high indebtedness, which must be resolved. In 2012 ZSSK CARGO settled its liabilities towards the state financial loan in the form of repayment of the first instalment of the capital and unpaid interests in the total amount of EUR

25.2 million. A significant event of the last year was sale of a part of the repair service capacities of our company. On one hand the company improved its cash flow; however, on the other hand it lost a substantial part of income resulting from these activities. Investment activities were performed to a limited extent. The major part of investments was directed at mobile means, the purchase and reconstruction of locomotives and wagons. Due to a decrease in outputs and the need of mobile means becoming real, a development concept was elaborated for years 2013-2017.

Even despite the intensive competition, ZSSK CARGO is still the biggest, most experienced and mainly all-network provider of transport and shipping services in Slovakia. However, liberalisation of the rail freight services in our country does not bring any new goods to our rails, only the existing goods flows are being divided among an increasing number of business entities operating in the field of rail freight services. The product portfolio of ZSSK CARGO includes a whole range of services being different from the aspect of profitability. The most lucrative services include shipping of complete trains. Individual consignments or groups of wagons are the most technology and cost demanding. In certain European countries there are restrictions or gradual damping of such transportations. However, if we did not provide these services approximately ten million tons of goods would end up on the roads and in the final end it would result in almost one million extra truck drives. In competition with road transportation in Slovakia the improperly set business conditions become clearly evident in road and rail freight services as well. The biggest share in the year-on-year drop-out belonged to transportation for the chemical industry, wood processing industry and energy industry. Owing to an active commercial policy we managed to acquire several new transportation jobs. A novelty in the business activities of the company was arrangement of transportations for the customer on the entire transportation route including the sections abroad using own driving rail vehicles and wagon fleet. At the same time import and export increased in the automotive commodity.

The company achieved its results thanks to its employees, colleagues – railwaymen who perform their work in this uneasy time of making the company processes more efficient and rational with enthusiasm and understanding of the changes that must be made. Their proficiency is a prerequisite for a pro-customer oriented company that has its stable place on the market and apart from confidence also offers services provided at a good quality level.

Ing. Vladimír Ľupták
Chairman of the Board
of Directors and CEO

# LIST OF USED ABBREVIATIONS

| | |
|---|---|
| **AVV** | General Contract of Use for Wagons (GCU) |
| **BTS** | BULK TRANSSHIPMENT SLOVAKIA, a.s. |
| **ČD CARGO** | Czech Freight Rail Transporter |
| **EIR** | Effective Interest Rate |
| **EU** | European Union |
| **GPS** | Global Positioning System |
| **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 |
| **MTCRD** | Ministry of Transport, Construction and Regional Development of the Slovak Republic |
| **OCI** | Other Comprehensive Income |
| **OHSAS** | Occupational Health and Safety Advisory Services |
| **PGV** | Regulations on Use of Wagons in International Rail Transport of Goods |
| **PKP** | Polskie Koleje Państwowe (Polish State Railways) |
| **PLK** | Polskie Linie Kolejowe (Polish Rail Lines Manager) |
| **RIV** | Agreement Governing the Exchange and Use of Wagons between Railway Undertakings |
| **SR** | Slovak Republic |
| **VAT** | Value Added Tax |
| **ZSSK** | Železničná spoločnosť Slovensko, a.s. |
| **ZSSK CARGO** | Železničná spoločnosť Cargo Slovakia, a.s. |
| **ŽS** | Železničná spoločnosť, a.s. |
| **ŽSR** | Železnice Slovenskej republiky |

# MILESTONES OF THE YEAR 2012

- Sale of the part of ZSSK CARGO railway repair shops to the Železničná spoločnosť Slovensko, a.s. as at 1. 2. 2012.
- Payment of the first principal instalment and unpaid loan interests instalment resulting from the government financial assistance.
- Initiation of the ZSSK CARGO rail transportation abroad. Transports utilizing own train sets were carried out using the PKP tracks from the ports Swinoujscie and Szczecin to Haniska pri Košiciach.
- Since September 2012, GPS system was implemented in the first nine motive power units operating on PKP lines, thus allowing to monitor the locomotive location also outside the territory of Slovakia.
- Implementation of transports for the customers exclusively utilizing foreign infrastructure (the railway carrier on the route parts outside the territory of Slovakia is handled on a supply basis – e.g. transports from one Polish railway station to another Polish railway station).
- Substantial increase in automotive export transports from the Slovak republic.
- Acquisition of the European train driving licences.
- Putting the Žilina – Teplička marshalling yard into operation with the ŽSR wagon shunting takeover which resulted in a modernisation of the largest rail freight transport node in Slovakia.
- Constitution of a new form for the Ukrainian wagons ownership and the foundation of the new Ukrainian Transport-Logistics Centre (UTLC) which resulted in the conclusion of a new bilateral agreement with the Ukrainian railways.
- Education and training including the verification of professional competence of the staff at own cost, not through the ŽSR institutions.
- The technical office services takeover (list of outgoing freight trains, train documentation) from the ŽSR in the two largest marshalling yards Bratislava – Východ and Košice and their execution by the company's own staff.
- Unexpected price increase for shunting by the ŽSR since 1.6.2012 (due to the differentiation in the charges for individual railway stations) which negatively affected the company cost and the volume of the expected ordered services was recalculated accordingly.
- Restoration of the regular meetings of the ZSSK CARGO Steering Committee to determine the optimum number of freight wagons and motive power units on a quarterly basis with respect to the expected transported volumes.
- Complex elaboration of the ZSSK CARGO Mobile Vehicles Stock Development Concept for the period 2013 – 2017 to optimise the railway rolling stock with respect to the expected business and operational needs of the ZSSK CARGO.
- Acquisition of new and the reconstruction of existing freight wagons which substantially increased the ZSSK CARGO railway rolling stock (29 pcs of Shimmns freight wagons, reconstruction of 175 wagon pieces of the Gbgkks series to Lgs wagons).
- Homologation of motive power units for the PLK (9 pcs).
- Completion of the installation of the electrodynamic brakes on motive power units of the series 131 (100 pcs in total).
- Radio control installation on motive power units of the series 131 and 183.
- Pilot reconstruction project of 240 series motive power units.
- Shut-down of the logistics plant Vrútky as at 1.11.2012 and the subsequent acquisition and logistics modification in the ZSSK CARGO.

# FREIGHT TRANSPORT

In the year 2012, our company transported almost 35.3 million tonnes of goods. This represents a decrease by 2.2 million tonnes on a year-on-year basis (-5.9%).

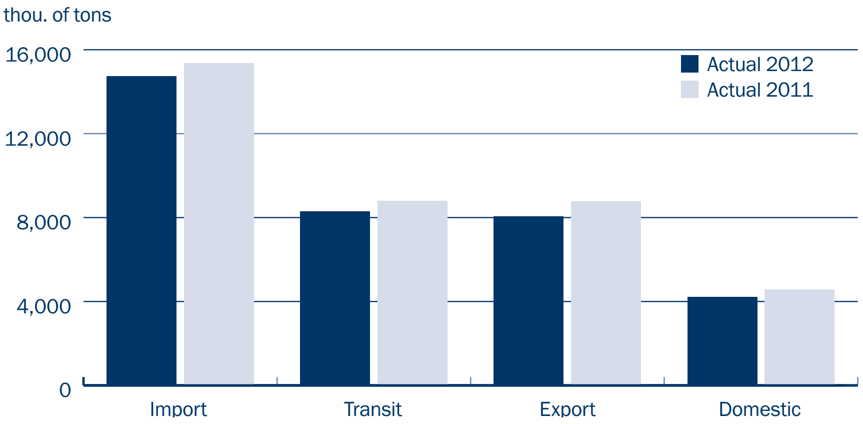
Yet from the beginning of the year, we experienced a negative tendency in the transported volumes during the first two months, which decreased by almost 1 million tonnes as compared with the same period of the preceding year. The decrease resulted from frosty weather, frozen Danube river and the implemented changes in the Ukrainian railways business policy. We suffered another significant loss in the autumn due to the production decrease in the metallurgic industry (the EU crisis consequences). The third factor of the transported volumes drop is related to the activities of the private transport companies (the loss was observed in chemistry and intermodal transport branches). On the other hand, we appreciate the increase in transports of metals and in the automotive segment (category of non-specified commodities).

An important success of the ZSSK CARGO is represented by the provision of coal and manganese ore transports from the Polish port Swinoujscie to our customer in Slovakia reaching more than 0.6 million tonnes of transported capacity. Moreover, we realized transports outside the territory of Slovakia amounting to almost 0.1 million tonnes through the services of our contractual transport partners.

## The comparison of the performance of freight transportations according to segments:

| In thousand of tons | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2012/11 |
|---|---|---|---|---|---|---|---|---|---|
| Import | 14,740 | 15,364 | 15,924 | 13,929 | 16,790 | 19,015 | 18,454 | 17,825 | 0.96 |
| Transit | 8,281 | 8,785 | 8,947 | 7,547 | 11,996 | 12,116 | 13,013 | 11,330 | 0.94 |
| Export | 8,057 | 8,768 | 9,325 | 8,428 | 10,280 | 11,639 | 12,204 | 11,686 | 0.92 |
| Domestic | 4,206 | 4,566 | 4,413 | 3,886 | 5,459 | 6,384 | 6,384 | 6,904 | 0.92 |
| | **35,284** | **37,483** | **38,610** | **33,789** | **44,525** | **49,154** | **50,055** | **47,745** | **0.94** |

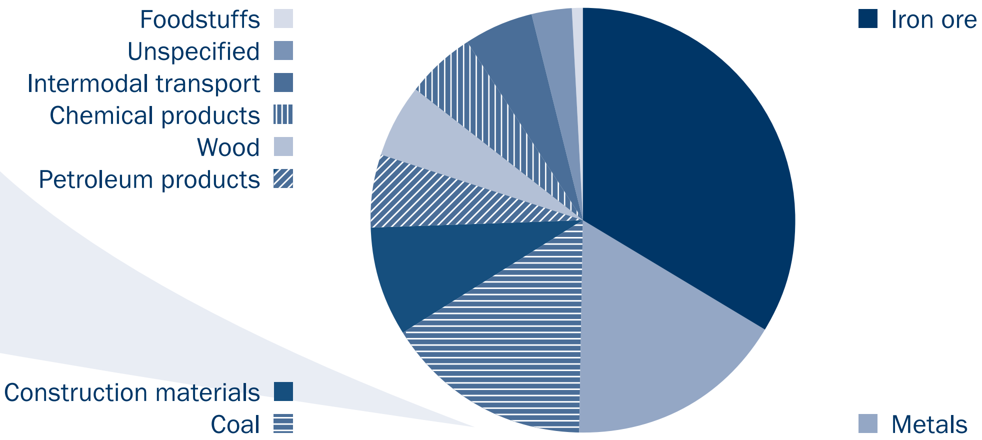
## Development of freight transport in 2011 and 2012



## The comparison of the performance of freight transportations according to the commodities:

| In thousand of tons | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2012/11 |
|---|---|---|---|---|---|---|---|---|---|
| Iron ore | 11,924 | 12,253 | 12,268 | 9,717 | 12,380 | 13,742 | 15,235 | 12,904 | 0.97 |
| Metals | 5,906 | 5,543 | 5,769 | 4,554 | 7,407 | 8,374 | 7,757 | 6,893 | 1.07 |
| Coal | 5,516 | 5,950 | 6,422 | 6,498 | 7,372 | 8,490 | 8,297 | 8,652 | 0.93 |
| Construction materials | 2,936 | 3,223 | 3,118 | 2,827 | 4,609 | 5,027 | 5,160 | 5,121 | 0.91 |
| Petroleum products | 2,011 | 2,195 | 2,154 | 2,854 | 3,340 | 3,515 | 3,375 | 3,483 | 0.92 |
| Wood | 1,968 | 2,308 | 2,448 | 1,929 | 2,248 | 2,471 | 2,588 | 3,517 | 0.85 |
| Chemical products | 1,874 | 2,578 | 2,730 | 2,329 | 3,257 | 3,598 | 3,643 | 3,759 | 0.73 |
| Intermodal transport | 1,870 | 2,243 | 2,779 | 1,985 | 2,280 | 1,809 | 1,334 | 1,179 | 0.83 |
| Unspecified | 1,001 | 768 | 623 | 687 | 1,092 | 1,328 | 1,577 | 949 | 1.30 |
| Foodstuffs | 277 | 421 | 298 | 410 | 540 | 800 | 1,090 | 1,288 | 0.66 |
|  | **35,284** | **37,483** | **38,610** | **33,789** | **44,525** | **49,154** | **50,055** | **47,745** | **0.94** |

## Classification according to the commodities Year 2012



# STRUCTURE OF MOTIVE POWER UNITS (MPU)

## Development of MPU number

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Electric locomotives | 309 | 323 | 324 | 330 | 331 |
| Diesel locomotives | 338 | 373 | 372 | 387 | 405 |
| Diesel coaches | 1 | 1 | 1 | 2 | 2 |
| | **648** | **697** | **697** | **719** | **738** |

Besides MPU in personal possession mentioned in the table ZSSK CARGO uses also 12 electric locomotives acquired through financial leasing.

## Age structure of MPU

| Years | Up to 15 | Up to 30 | Over 30 | Total |
|---|---|---|---|---|
| Electric locomotives | 7 | 74 | 228 | 309 |
| Diesel locomotives | 49 | 70 | 219 | 338 |
| Diesel coaches | - | 1 | - | 1 |
| | **56** | **145** | **447** | **648** |

Волжский Оргсинтез
СЕРОУГЛЕРОД Х
57367849

# STRUCTURE OF FREIGHT WAGONS FLEET

## Development of number of wagons

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Covered wagons | 1,952 | 2,141 | 2,190 | 2,327 | 2,725 |
| Open wagons | 6,808 | 6,860 | 7,125 | 7,215 | 7,121 |
| Flat wagons | 3,076 | 2,973 | 2,891 | 2,952 | 2,973 |
| Other freight wagons | 1,473 | 1,474 | 1,482 | 1,522 | 1,691 |
| | **13,309** | **13,448** | **13,688** | **14,016** | **14,510** |

Besides above-mentioned wagons in personal possession, ZSSK CARGO rented 1,354 wagons through the financial leasing as at 31. December 2012. Financial leasing was used also in the previous years.

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

| Years | Up to 5 | 6-10 | 11 -15 | 16-20 | 21 -25 | 26-30 | Over 30 | Total |
|---|---|---|---|---|---|---|---|---|
| E - ordinary open high-sided wagon | 343 | 105 | 138 | 154 | 1,713 | 1,958 | 1,309 | 5,720 |
| F - special open wagon | - | - | - | - | - | 34 | 1,054 | 1,088 |
| G - ordinary covered wagon | - | - | - | - | 142 | 79 | 69 | 290 |
| H - special covered wagon | - | 395 | 335 | 59 | 1 | 33 | 474 | 1,297 |
| K - ordinary flat wagon | - | 15 | - | - | 18 | - | 213 | 246 |
| L - special flat wagon | 200 | 7 | - | - | 35 | - | 3 | 245 |
| R - ordinary flat bogie wagon | - | 300 | 232 | - | - | 242 | 949 | 1,723 |
| S - special flat bogie wagon | 1 | - | 340 | 87 | - | - | 434 | 862 |
| T - wagon with opening roof | - | - | - | 56 | 175 | 39 | 95 | 365 |
| U - special wagon | - | - | - | - | 78 | 45 | 91 | 214 |
| Z - tank wagon | - | - | - | - | - | 710 | 549 | 1,259 |
| | **544** | **822** | **1,045** | **356** | **2,162** | **3,140** | **5,240** | **13,309** |

# CAPITAL INVESTMENTS OF ZSSK CARGO

## (accounting balance as at  31.12.2012 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. Brussela, Belgium | 4 | paper | 2.96 | 2,974.72 |
| BULK TRANSSHIPMENT SLOVAKIA, a.s. | 41,964 | paper | 40 | 1,530,903.54 |
| | | | | **1,541,488.59** |

# INTEGRATED MANAGEMENT SYSTEM

The ZSSK CARGO is focused on the control of the company processes. A satisfaction of both external and internal customers with the provided services represents our primary goal. To fulfil the expectations of our business partners, the ZSSK CARGO is primarily concentrated on continuous improvement of the provided services and products. The established integrated management system complying with ISO 9001 and OHSAS 18001 standards shall help to fulfil this goal.
Through the successful certification, recertification and supervisory audits, the independent certification company TÜV SÜD Slovakia confirmed that our integrated management system is still being improved, well maintained and kept functional.

ZSSK CARGO holds certificates:

- According to the ISO 9001 standards for the following products:
  - International freight traffic (logistic trains)
  - Maintenance and repairs of rolling stock
  - Procurement and purchase, methods and analysis, storage and fleet of vehicles services
  - East Slovak Transshipment Yards
  - Ensuring the Professional qualification and training of the employees
- According to OHSAS 18001 standards for the following product:
  - Operation at the EVO Vojany workplace

# HUMAN RESOURCES

As at 31.12. 2012, the company employed 6,822 people. As compared with the year 2011, an employment decrease by 1,232 people (15%) is indicated. The main factor influencing the decrease is related to the transfer of a part of repair works to the Železničná spoločnosť Slovensko, a.s. with the result of employment termination of 973 employees in the form of rights and duties transfers. The other reasons of employment decrease were retirements or terminations of employment agreement.

## Employees by age

- the largest decrease in the number of employees (463 – 37.58%) was found in the age category 40 - 49 years of the total number of employees decrease (1 232).
- the largest number of employees (3,088 – 44.09%) was found in the age category 50 - 62 years.

Age structure

| Age | 2012 | 2011 | 2010 | 2009 | 2008 | 2012-11 |
|---|---|---|---|---|---|---|
| 18 - 29 | 303 | 378 | 516 | 532 | 640 | (75) |
| 30 - 39 | 1,148 | 1,509 | 1,852 | 2,044 | 2,311 | (361) |
| 40 - 49 | 2,351 | 2,814 | 3,191 | 3,356 | 3,549 | (463) |
| 50 - 62 | 3,008 | 3,341 | 3,955 | 3,887 | 3,935 | (333) |
| Over 62 | 12 | 12 | 32 | 7 | 13 | - |
| | **6,822** | **8,054** | **9,546** | **9,826** | **10,448** | **(1,232)** |

As at 31.12. 2012, the average age of employees was 47.30.

## Employees by education

- the largest decrease in the number of employees was found in the category secondary professional education (603 employees – 48.94%) of the total number of employees decrease (1,232).
- despite the stated decrease, the ZSSK CARGO continues to employ 3,566 employees (52.27%) in this category.

Education structure

| Education | 2012 | 2011 | 2010 | 2009 | 2008 | 2012-11 |
|---|---|---|---|---|---|---|
| Elementary | 148 | 171 | 235 | 265 | 288 | (23) |
| Apprentice school | 2,426 | 3,000 | 3,603 | 3,814 | 4,126 | (574) |
| Completed tech. vocational | 3,566 | 4,169 | 4,919 | 5,046 | 5,314 | (603) |
| University | 682 | 714 | 789 | 701 | 720 | (32) |
| | **6,822** | **8,054** | **9,546** | **9,826** | **10,448** | **(1,232)** |

The average wage for the year 2012 was 796.96 EUR which represents an 7.4% increase as compared with the year 2011 (the average wage increase above the agreed wage increase according to the collective bargaining agreement (2%) resulted from the changes in the employment structure – transfer of a part of the repair works).

In the field of education, the company acquired a certified product – “professional training of employees” within the integrated quality management system and started the professional training and verification of professional skills of its staff.

# RISKS

In the year 2012, ZSSK CARGO has carried out activities in a business environment which showed substantial changes on a long-term scale. As a result, the company's situation changed accordingly. Any change as well as the regular company activities resulted in the risk which more or less jeopardized the fulfilment of the main goals of the company:

- The company activities continue to be exposed to the world financial and economic crisis impact which is directly related to the ongoing recession in the metallurgic industry and affects the company performance and economic parameters.
- The year 2012 saw a more significant performance increase at the railway competitors and the rail freight market penetration of foreign national transport carriers which also resulted in the transported volumes decrease of ZSSK CARGO on a year-on-year basis, especially in the case of block trains and hence, the company transportation revenues.
- With respect to the application state of the Principles of State Transport Policy of the Slovak republic in the field of harmonisation of the business conditions for all mode of transport and support of ecological transports, transport volumes were not substantially shifted from road to rail. Moreover, high load in the transports of individual consignments and the tariff point's reduction continue to transfer some transports from rail back to road.
- As a result of insufficiently available investment funds, the year 2012 saw the lowest investment budget since the independent company ZSSK CARGO establishment on 01. 01. 2005. The level of the property recreation did not even cover the regular property reproduction and the further company development was not guaranteed as required.
- Being a public procurement subject, the company attained a partial cost saving in the area of goods, works and services procurement while substantially decreasing flexibility and increasing the time of procurement implementation. This negatively affected the company competitive strength in the process of public procurements of freight transports.
- In the year 2012, the railway operation suffered from severe winter conditions in January and February 2012 as well as from the ŽSR traffic closure, which negatively affected the passenger and rail freight transport efficiency.

# EXPECTED FUTURE DEVELOPMENT

For the year 2013, the ZSSK CARGO company plans to continue increasing efficiency and optimising the processes to attain better economy and decrease the company overall debt. In the upcoming year, the company expects to stabilise transported volumes and gained transport revenues which can be negatively affected by external factors, especially by the persistent economic crisis and advantages of road transport.

# PARTICULAR INFORMATION FOR THE YEAR 2012

As a result of the preparation of a strategic investor participation in the ZSSK CARGO company, the business and operational activities as well as investment and development activities have been reduced and the solution of the company high indebtedness has been postponed.

The company spends financial resources to eliminate possible negative environmental impact of repair works.

For the year 2012, the company did not spend any financial resources on research and development.

The company does not have any branches abroad.

After the accounting period closure as at December 31, 2012, no important circumstances were found except for the sale of the company estate part in February 2013 which concluded the sale of a part of repair activities to ZSSK as at February 1, 2012.

The 2012 book loss amounting 23,947 thousand EUR shall be transferred to the previous years' unrecovered losses.

# SELECTED ECONOMIC INDICATORS

## According to the data from the separate financial statement

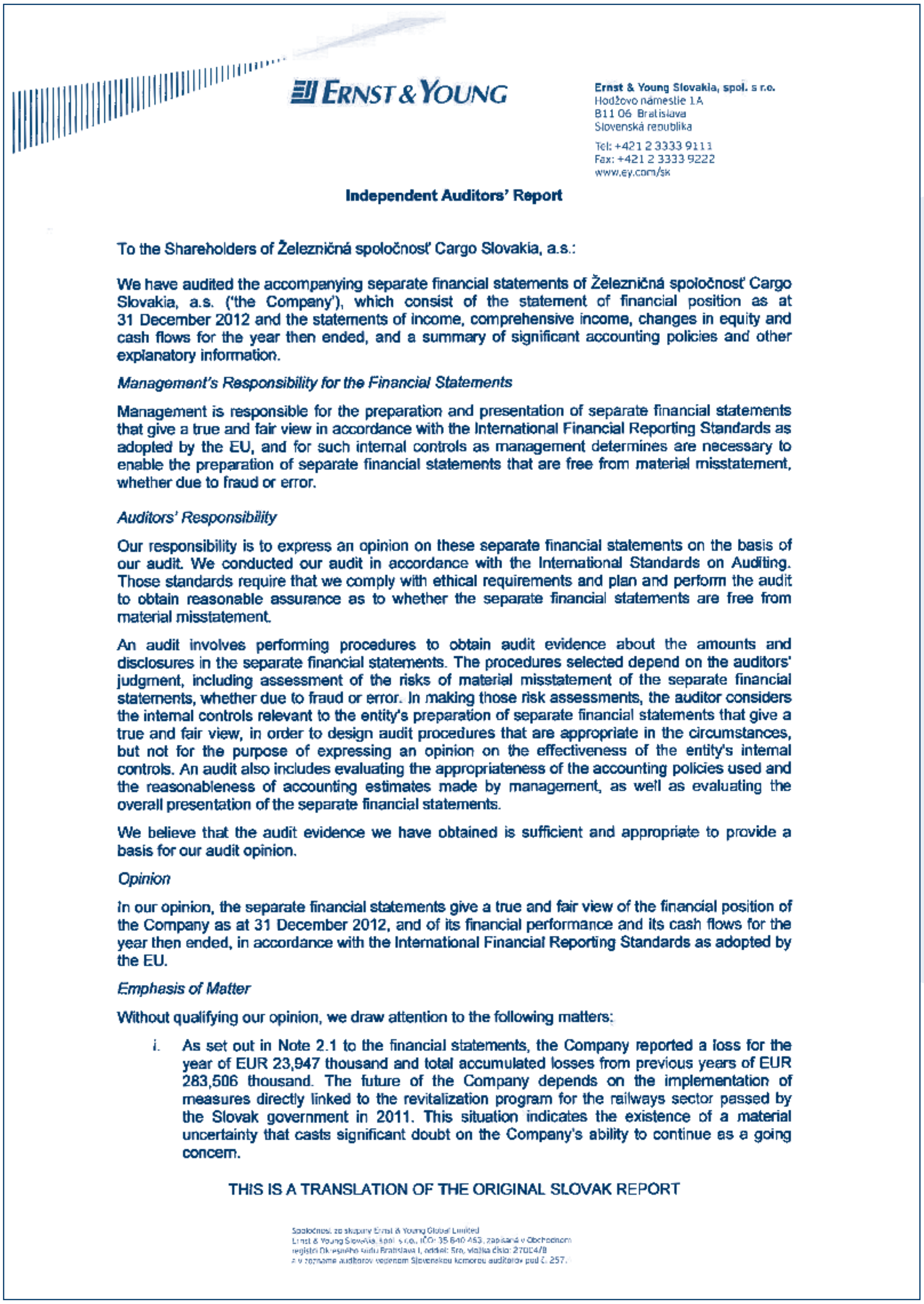
| In thousand of EUR | 2012 | 2011 |
|---|---|---|
| Total assets | 678,110 | 774,488 |
| Long-term tangible property | 605,716 | 641,380 |
| Assets held for sale | 3,629 | 45,360 |
| Equity | 119,368 | 143,315 |
| Loans (short-term + long-term) | 255,961 | 272,959 |
| Revenues | 315,169 | 371,029 |
| Costs | (326,014) | (354,122) |
| Profit /(loss) out of financial operations | (13,057) | (17,220) |
| Income tax | (45) | (18) |
| **Economic result** | **(23,947)** | **(331)** |

# 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 2012

ZSSK CARGO

# INDEPENDENT AUDITOR’S REPORT



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**Independent Auditors’ Report**

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

We have audited the accompanying separate financial statements of Železničná spoločnosť Cargo Slovakia, a.s. (‘the Company’), which consist of the statement of financial position as at 31 December 2012 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management’s Responsibility for the Financial Statements*

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

*Auditors’ Responsibility*

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

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

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

*Opinion*

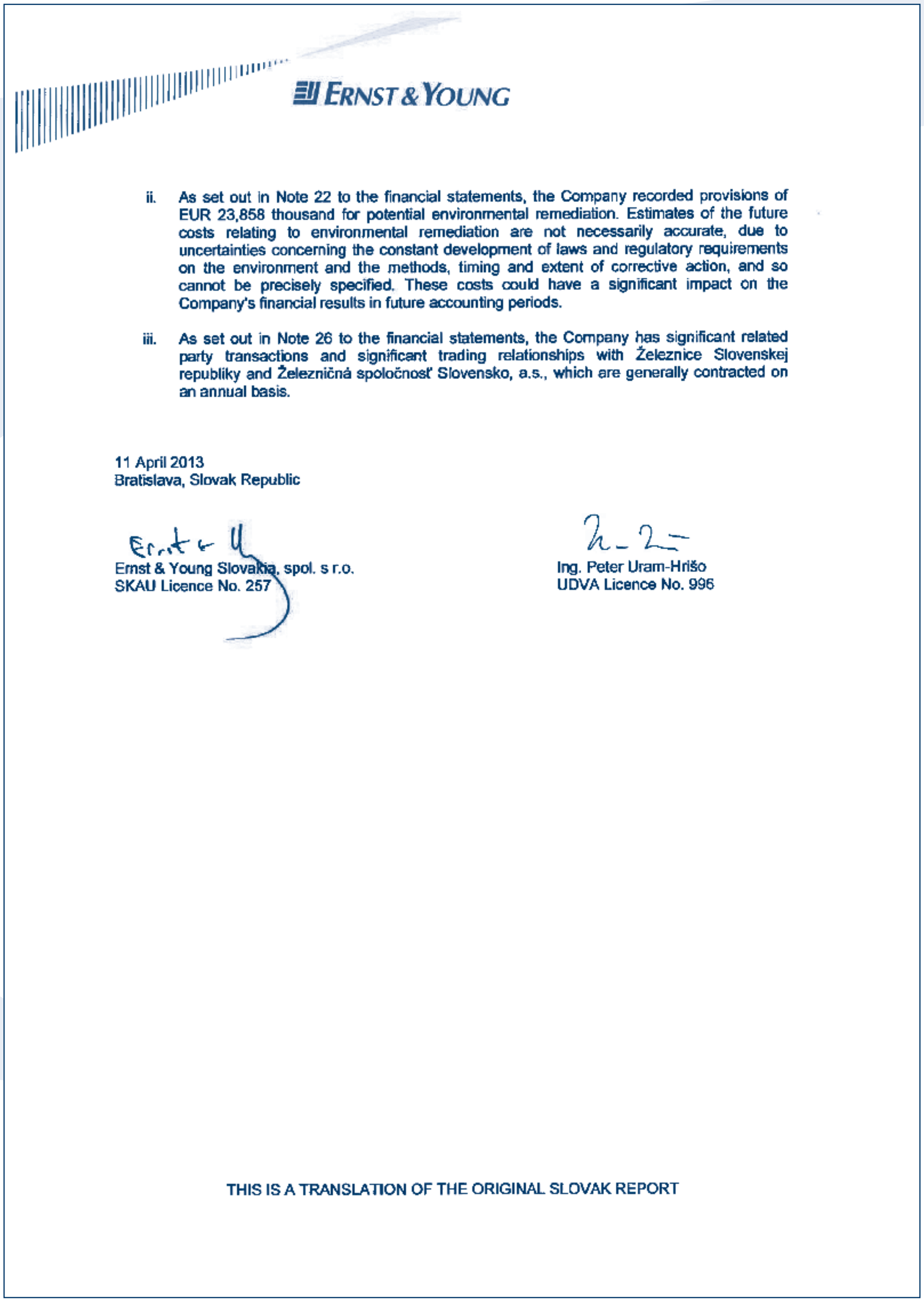
In our opinion, the separate financial statements give a true and fair view of the financial position of the Company as at 31 December 2012, and of its financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards as adopted by the EU.

*Emphasis of Matter*

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

i. As set out in Note 2.1 to the financial statements, the Company reported a loss for the year of EUR 23,947 thousand and total accumulated losses from previous years of EUR 283,506 thousand. The future of the Company depends on the implementation of measures directly linked to the revitalization program for the railways sector passed by the Slovak government in 2011. This situation indicates the existence of a material uncertainty that casts significant doubt on the Company's ability to continue as a going concern.

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT



ERNST & YOUNG

ii. As set out in Note 22 to the financial statements, the Company recorded provisions of EUR 23,858 thousand for potential environmental remediation. Estimates of the future costs relating to environmental remediation are not necessarily accurate, due to uncertainties concerning the constant development of laws and regulatory requirements on the environment and the methods, timing and extent of corrective action, and so cannot be precisely specified. These costs could have a significant impact on the Company's financial results in future accounting periods.

iii. As set out in Note 26 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.

11 April 2013
Bratislava, Slovak Republic

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

Ing. Peter Uram-Hrišo
UDVA Licence No. 996

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT

# STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

| In thousands of EUR | Note | 31 December 2012 | 31 December 2011 |
|---|---|---|---|
| **Revenues** | | | |
| Transportation and related revenues | 3 | 292,057 | 320,894 |
| Other revenues | 4 | 23,112 | 50,135 |
| | | **315,169** | **371,029** |
| **Costs and expenses** | | | |
| Consumables and services | 5 | (171,353) | (188,769) |
| Staff costs | 6 | (94,853) | (104,389) |
| Depreciation, amortisation and impairment of property, plant and equipment and intangible assets | 12, 13 | (68,748) | (59,846) |
| Other operating revenues (expenses), net | 7 | 8,940 | (1,118) |
| | | **(326,014)** | **(354,122)** |
| **Finance costs** | | | |
| Interest expense | 8 | (13,557) | (17,071) |
| Other finance revenues (costs), net | 9 | (216) | (170) |
| Interest income | | 716 | 21 |
| | | **(13,057)** | **(17,220)** |
| Income tax | 11 | (45) | (18) |
| **Loss for the period** | | **(23,947)** | **(331)** |
| Other comprehensive income for the period | | - | - |
| | | | |
| **Total comprehensive income for the period** | | **(23,947)** | **(331)** |

The accounting policies and notes form an integral part of the financial statements.
Approved by Ing. Vladimír Ľupták and Ing. Peter Fejfar on behalf of the Board of Directors on 16 April 2013.

# STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

| In thousands of EUR | Note | 31 December 2012 | 31 December 2011 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | 605,716 | 641,380 |
| Intangible assets | 12 | 14,867 | 16,815 |
| Investment in joint venture | 14 | 1,541 | 1,541 |
| Other non-current assets | 10 | 218 | 615 |
| | | **622,342** | **660,351** |
| **Current assets** | | | |
| Inventories | 15 | 8,634 | 13,211 |
| Trade and other receivables | 16 | 43,444 | 55,495 |
| Cash and cash equivalents | 17 | 61 | 71 |
| | | **52,139** | **68,777** |
| **Assets held for sale** | **25** | **3,629** | **45,360** |
| | | **55,768** | **114,137** |
| **TOTAL ASSETS** | | **678,110** | **774,488** |
| **EQUITY AND LIABILITIES** | | | |
| **Shareholder's equity** | | | |
| Share capital | 18 | 401,646 | 401,646 |
| Other funds | 18 | 1,228 | 1,228 |
| Accumulated losses | 18 | (283,506) | (259,559) |
| **Total equity** | | **119,368** | **143,315** |
| **Non-current liabilities** | | | |
| Subordinated debt | 19 | 136,720 | 146,470 |
| Employee benefits | 21 | 14,243 | 13,590 |
| Provisions | 22 | 31,935 | 30,186 |
| Trade and other payables | 23 | 104,466 | 56,092 |
| Finance lease liabilities | 24 | 70,522 | 75,385 |
| Other non-current liabilities | 23 | 162 | 134 |
| | | **358,048** | **321,857** |
| **Current liabilities** | | | |
| Subordinated debt | 19 | 19,500 | 19,500 |
| Interest-bearing loans and borrowings | 20 | 99,741 | 106,989 |
| Employee benefits | 21 | 676 | 732 |
| Provisions | 22 | 4,782 | 1,361 |
| Trade and other payables | 23 | 59,662 | 154,320 |
| Finance lease liabilities | 24 | 16,333 | 14,602 |
| | | **200,694** | **297,504** |
| Liabilities directly associated with assets held for sale | 25 | - | **11,812** |
| **Total liabilities** | | **558,742** | **631,173** |
| **TOTAL EQUITY AND LIABILITIES** | | **678,110** | **774,488** |

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

Approved by Ing. Vladimír Ľupták and Ing. Peter Fejfar on behalf of the Board of Directors on 16 April 2013.

# STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

| In thousands of EUR | Share capital | Legal reserve fund | Other funds | Accumulated losses | Total |
|---|---|---|---|---|---|
| **At 1 January 2011** | **401,646** | **-** | **1,228** | **(259,228)** | **143,646** |
| Loss for the period | - | - | - | (331) | (331) |
| Other comprehensive income | - | - | - | - | - |
| Total comprehensive income | - | - | - | (331) | (331) |
| **At 31 December 2011** | **401,646** | **-** | **1,228** | **(259,559)** | **143,315** |
| Loss for the period | - | - | - | (23,947) | (23,947) |
| Other comprehensive income | - | - | - | - | - |
| Total comprehensive income | - | - | - | (23,947) | (23,947) |
| **At 31 December 2012** | **401,646** | **-** | **1,228** | **(283,506)** | **119,368** |

The accounting policies and notes form an integral part of the financial statements.
Approved by Ing. Vladimír Ľupták and Ing. Peter Fejfar on behalf of the Board of Directors on 16 April 2013.

# STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012

| In thousands of EUR | Note | 31 December 2012 | 31 December 2011 |
|---|---|---|---|
| **Operating activities** | | | |
| Loss for the period | | (23,947) | (331) |
| Adjustments for: | | | |
| Non-cash items | | | |
| ■ Depreciation, amortisation and impairment of property, plant and equipment and intangible assets | 12, 13 | 68,748 | 59,689 |
| ■ Loss (gain) on sale of property, plant and equipment | 7 | (4,386) | - |
| ■ Interest expense | 8 | 13,557 | 23,044 |
| ■ Interest income | | (716) | (21) |
| ■ Movements in provisions and employee benefits | | (7,724) | (22,171) |
| | | **45,532** | **60,210** |
| Working capital adjustments | | | |
| ■ Decrease in inventories | | 5,163 | 1,021 |
| ■ Decrease in trade and other receivables | | 13,542 | 4,818 |
| ■ Increase (decrease) in trade and other payables | | (52,348) | 50,900 |
| **Net cash flows  from operating activities** | | **11,889** | **116,948** |
| **Investing activities** | | | |
| Purchase of property, plant and equipment | 12, 13 | (31,090) | (62,506) |
| Proceeds from sale of property, plant and equipment | | 60,055 | 601 |
| **Net cash flows from (used in) investing activities** | | **28,965** | **(61,905)** |
| **Financing activities** | | | |
| Proceeds from loans and borrowings | | 4,700 | 2,509,264 |
| Repayment of loans and borrowings | | (42,454) | (2,586,017) |
| Repayment of subordinated debt | | (9,750) | - |
| Interest paid | | (21,416) | (20,608) |
| Interest received | | 716 | 21 |
| Payments of finance lease liabilities | | (3,166) | (17,061) |
| **Net cash flows used in financing activities** | | **(71,370)** | **(114,401)** |
| **Net (decrease) increase in cash and cash equivalents** | | **(30,516)** | **(59,358)** |
| **Cash and cash equivalents at 1 January** | **17** | **(64,464)** | **(5,106)** |
| **Cash and cash equivalents at 31 December** | **17** | **(94,980)** | **(64,464)** |

The accounting policies and notes form an integral part of the financial statements.
Approved by Ing. Vladimír Ľupták and Ing. Peter Fejfar on behalf of the Board of Directors on 16 April 2013.

# NOTES TO FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION

### Information on Reporting entity

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

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

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

### Principal activities

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

### The registered office of ZSSK CARGO

Drieňová 24
820 09 Bratislava
Slovak Republic

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

## 2.1 BASIS OF PREPARATION AND MEASUREMENT

These separate financial statements were approved and authorized for issue by the Board of Directors on 16 April 2013. The General Meeting held on 31 July 2012 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 2012 to 31 December 2012.

The financial statements were prepared using the going concern assumption that the Company will continue its operations for the foreseeable future. The Company reported a loss of EUR 23,947 thousand for the year and total accumulated loss of EUR 283,506 thousand. In 2012, Company failed to meet financial covenants for one particular loan contract (note 20).

In 2012 and 2011, the Company implemented corrective measures approved by the Government for the revitalization of the railway sector. In 2013, the Company plans to continue applying these measures to reduce the Company’s debt and to achieve balanced budget.

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

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

### Statement of compliance

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

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

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Company has adopted the following new and amended IFRS and IFRIC interpretations as at 1 January 2012, all adopted by the European Union (hereinafter as the "EU"):

- IAS 12 Amendment to Income Taxes – Deferred Taxes: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012);
- IFRS 1 Amendment to First-Time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters (effective for annual periods beginning on or after 1 July 2011);
- IFRS 7 Amendment to Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements (effective for annual periods beginning on or after 1 July 2011).

The Company has not early adopted any standards and interpretations where adoption is not mandatory at the balance sheet date.

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Company, its impact is described below:

*Amendment to IAS 12 Income Taxes – Deferred Taxes: Recovery of Underlying Assets*

The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The adoption of this amendment did not have a significant impact on the financial position or the performance of the Company.

*Amendment to IFRS 1 First-Time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters*

The IASB provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The adoption of this amendment did not have a significant impact on the financial position or the performance of the Company.

*Amendment to IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements*

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Company's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with such an involvement. The adoption of this amendment did not have a significant impact on the financial position or the performance of the Company.

**Standards issued but not yet effective**

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

- IAS 1 Amendment to IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012);
- IAS 19 Revised IAS 19 Employee benefits (effective for annual periods beginning on or after 1 January 2013);
- IAS 27 Revised IAS 27 Separate Financial Statements (effective for annual periods beginning on or after 1 January 2014);
- IAS 28 Revised IAS 28 Investments in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2014);
- IFRS 9 Financial Instruments: Classification and Measurement (effective for annual periods beginning on or after 1 January 2015; this standard has not been approved by the EU yet);
- IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2014);
- IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2014);
- IFRS 12 Disclosure of Involvement with Other Entities (effective for

annual periods beginning on or after 1 January 2014);

- IFRS 13 Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013);
- IFRS 7 Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013);
- IAS 32 Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014);
- IFRS 1 Amendments to IFRS 1 Government Loans (effective for annual periods beginning on or after 1 January 2013, these amendments have not been approved by the EU yet).
- IFRS 10
- IFRS 11
- IFRS 12 Amendments to IFRS 10, IFRS 11 and IFRS 12 Transition guidance (effective for annual periods beginning on or after 1 January 2012, aligned with the effective dates of IFRS 10, IFRS 11 and IFRS 12, these amendments have not been approved by the EU yet).
- IFRS 10
- IFRS 12
- IAS 27 Amendments to IFRS 10, IFRS 12 and IAS 27 Investment entities (effective for annual periods beginning on or after 1 January 2014, these amendments have not been approved by the EU yet). The amendments apply to a particular class of business that qualify as investment entities.

*Annual Improvements May 2012*

The following standards and interpretations were amended:

- IFRS 1 First-time Adoption of International Financial Reporting Standards
- IAS 1 Presentation of Financial Statements
- IAS 16 Property Plant and Equipment
- IAS 32 Financial Instruments, Presentation
- IAS 34 Interim Financial Reporting

These improvements are effective for annual periods beginning on or after 1 January 2013. These improvements have not been approved by the EU yet. The principal effects of these changes are as follows:

*Amendment to IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (OCI)*

The amendment to IAS 1 changes the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The Company is considering an impact of this amendment on its separate financial statements.

*Amendments to IAS 19 Employee Benefits*

These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. Past service costs shall be recognised when the plan amendment or curtailment occurs. Prior to the amendment, past service costs were recognised as an expense on a straight-line basis over the average period until the benefits become vested.

*Revised IAS 27 Separate Financial Statements*

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Company is considering an impact of this revision on its separate financial statements.

*Revised IAS 28 Investments in Associates and Joint Ventures*

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The Company is considering an impact of this revision on its separate financial statements.

*IFRS 9 Financial Instruments: Classification and Measurement*

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

*IFRS 10 Consolidated Financial Statements*

The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity. It defines the principle of control, and establishes controls as the basis for consolidation and sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. The standard stipulates the accounting requirements for the preparation of consolidated financial statements. The Company is considering an impact of this standard on its separate financial statements.

*IFRS 11 Joint Arrangements*

IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Company is considering an impact of this standard on its separate financial statements.

*IFRS 12 Disclosure of Involvement with Other Entities*

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Company is considering an impact of this standard on its separate financial statements.

*IFRS 13 Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Company is considering an impact of this standard on its separate financial statements.

*Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities*

The amendment to IFRS 7 requires an entity to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement. The Company is considering an impact of these amendments on its separate financial statements.

*Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities*

The amendment to IAS 32 are intended to clarify existing application issues relating to the offsetting rules and reduce level of diversity in current practise. The Company is considering an impact of this amendment on its separate financial statements.

*Amendments to IFRS 1 Government Loans*

These amendments require first-time adopters to apply the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IAS 39 and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The Company is considering an impact of these amendments on its separate financial statements.

*Amendments to IFRS 10, IFRS 11 and IFRS 12 Transition guidance*

The amendments are intended to provide additional transition relief in IFRS 10 , IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, by "limiting the requirement to provide adjusted comparative information to only the preceding comparative period". Also, amendments were made to IFRS 11 and IFRS 12 to eliminate the requirement to provide comparative information for periods prior to the immediately preceding period. The Company is considering an impact of these amendments on its separate financial statements.

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

## 2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

**Critical judgments in applying accounting policies**

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

*Environmental matters*

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

*Lease arrangements*

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

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

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

**Sources of estimate uncertainty**

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

*Legal claims*

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

*Quantification and timing of environmental liabilities*

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

*Impairment of property, plant and equipment*

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

*Actuarial estimates applied for calculation of retirement benefit obligations*

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

*Depreciable lives and residual values of property, plant and equipment*

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Functional and presentation currency**

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

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

### Property, plant and equipment

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

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

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

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

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

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

### Intangible assets

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

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

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

### Impairment of non-financial assets

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

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

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

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

### Inventories

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

### Joint venture

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

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

### Financial assets

*Initial recognition*

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

*Subsequent measurement*

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

*Financial assets at fair value through profit or loss*

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

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

*Loans and receivables*

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

*Held-to-maturity investments*

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

As at 31 December 2012 and 2011, 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 2012 and 2011, 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 2012 and 2011, 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 cleanups are probable and the associated costs can be reliably estimated. Generally, the timing of these provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites. The amount recognized is the best estimate of the expenditure required.

*Legal claims*

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

### Leases

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

*As Lessee*

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

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

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

*As Lessor*

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

### Revenue recognition

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

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

### Borrowing costs

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

### Income tax

*Current income tax*

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

*Deferred income tax*

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

Deferred tax liabilities are recognised for all taxable temporary differences.

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

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

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

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

## 3. TRANSPORTATION AND RELATED REVENUES

| In thousands of EUR | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Inland transport: | | |
| ■ Transport of goods | 32,001 | 34,561 |
| ■ Wagon deposition | 7,379 | 11,101 |
| ■ Haulage fees | 1,127 | 788 |
| | **40,507** | **46,450** |
| International transport: | | |
| ■ Import | 104,216 | 118,709 |
| ■ Export | 113,045 | 113,670 |
| ■ Transit | 16,372 | 20,715 |
| | **233,633** | **253,095** |
| Other transport related revenues: | | |
| ■ Usage of wagons under RIV, PGV and AVV regimes | 6,163 | 7,759 |
| ■ Wagon rentals | 5,052 | 6,535 |
| ■ Cross-border services | 3,737 | 3,892 |
| ■ Other | 2,965 | 3,163 |
| | **17,917** | **21,349** |
| | **292,057** | **320,894** |

Transportation and related revenues include amounts invoiced to U.S. Steel Košice of EUR 67,201 thousand (2011: EUR 73,233 thousand) and to Budamar Logistics of EUR 66,383 thousand (2011: EUR 69,682 thousand).

## 4. OTHER REVENUES

| In thousands of EUR | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Repairs and maintenance | 8,573 | 32,468 |
| Operational performance | 5,911 | 9,527 |
| Property rentals | 4,001 | 3,978 |
| Other | 4,627 | 4,162 |
| | **23,112** | **50,135** |

Other revenues included revenues charged to ZSSK of EUR 12,583 thousand (2011: EUR 35,431 thousand) for repair and maintenance, operational performance, property rental and other support services.

## 5. CONSUMABLES AND SERVICES

| In thousands of EUR | 31 December 2012 | 31 December 2011 |
|---|---:|---:|
| Network fees | (44,229) | (53,393) |
| Traction electricity | (33,338) | (35,336) |
| Traction crude oil | (18,415) | (18,709) |
| Materials | (14,596) | (25,227) |
| Wagon rentals | (13,617) | (13,816) |
| IT services and telecommunication charges | (9,284) | (8,622) |
| Foreign segments | (8,589) | - |
| Other energy costs | (5,535) | (8,064) |
| Third party transhipment services | (5,368) | (4,957) |
| Cross-border services | (4,161) | (4,342) |
| Rentals | (3,575) | (3,663) |
| Repair and maintenance | (3,368) | (2,110) |
| Security services | (1,600) | (1,824) |
| Travelling and entertainment | (1,289) | (1,404) |
| Cleaning of cars, property, waste disposal | (684) | (1,013) |
| Advisory and consultancy fees | (558) | (2,495) |
| Medical care | (484) | (450) |
| Training | (194) | (459) |
| Other | (2,469) | (2,885) |
| | **(171,353)** | **(188,769)** |

Consumables and services include amounts charged by ŽSR of EUR 89,950 thousand (2011: EUR 96,677 thousand), primarily relating to the usage of ŽSR's network (the Company has a one year contract with ŽSR which specifies planned kilometres and charge rates for different types of transport) and also to the purchase of traction energy (refer to Note 26).

## 6. STAFF COSTS

| In thousands of EUR | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Wages and salaries | (65,093) | (74,922) |
| Social security costs | (26,967) | (33,687) |
| Employee benefits (Note 21; 25) | 1,154 | (1,918) |
| Termination payments (Note 22) | (3,947) | 6,138 |
| | **(94,853)** | **(104,389)** |

Employee numbers at 31 December 2012 were 6,822 (2011: 8,054), thereof six were members of management (as members of the Board of Directors or directors of individual departments). Average employee numbers at 31 December 2012 were 7,015 (2011: 8,701). The average salary in 2012 amounted to EUR 796 (2011: EUR 733).

## 7. OTHER OPERATING REVENUES (EXPENSES), NET

| In thousands of EUR | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Provision for environmental matters (Note 22; 25) | 9,849 | (21) |
| Gains on sale of property, plant, equipment and inventories (Note 25; 26) | 5,730 | 1,251 |
| Provision for legal cases and onerous contracts (Note 22) | (2,575) | 2,746 |
| Allowance for doubtful debts | (666) | (404) |
| Insurance of assets | (2,553) | (2,574) |
| Other | (845) | (2,116) |
| | **8,940** | **(1,118)** |

## 8. INTEREST EXPENSE

| In thousands of EUR | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Interest on loans and borrowings | (2,661) | (4,781) |
| Interest on subordinated debt | (7,158) | (7,841) |
| Interest charges on finance lease liabilities | (3,607) | (3,537) |
| Unwinding of discount on provisions and employee benefits | (131) | (912) |
| | **(13,557)** | **(17,071)** |

## 9. OTHER FINANCE REVENUES (COSTS), NET

| In thousands of EUR | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Foreign exchange losses, net | (21) | (4) |
| Other revenues (costs) | (195) | (166) |
| | **(216)** | **(170)** |

## 10. OTHER NON-CURRENT ASSETS

| In thousands of EUR | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Prepaid expenses | 218 | 615 |
| | **218** | **615** |

## 11. INCOME TAX

The reported income tax represents a withholding tax paid abroad in the amount of EUR 45 thousand (2011: EUR 18 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 2012 | 31 December 2011 |
|---|---|---|
| Loss before tax | (23,947) | (331) |
| Tax charge at statutory tax rate of 19% | (4,550) | (66) |
| Tax paid abroad | (45) | (18) |
| Forfeit tax loss carry forwards | 5,412 | 2,269 |
| Change in valuation allowance | 6,869 | (2,211) |
| Non-deductible expenses | (7,731) | 9 |
| **Total income tax** | **(45)** | **(18)** |

Deferred tax assets and liabilities at 31 December related to the following (for year ended 31 December 2012 was used income tax rate 23% applicable in future accounting period):

| In thousands of EUR | 31 December 2012 | 31 December 2011 |
|---|---|---|
| **Deferred tax assets** | | |
| Tax loss carried forward | 61,885 | 54,379 |
| Provision for environmental matters | 5,487 | 6,515 |
| Provision for employee benefits | 3,432 | 3,096 |
| Allowance for trade and other receivables | 1,055 | 1,080 |
| Allowance for inventories | 313 | 370 |
| Provision for legal cases and onerous contracts | 2,050 | 1,207 |
| Termination payments | 908 | 142 |
| Other | 1,356 | 2,378 |
| | **76,486** | **69,185** |
| **Deferred tax liabilities** | | |
| Accelerated depreciation for tax purposes | (24,179) | (23,628) |
| Other | (6) | (125) |
| | **(23,185)** | **(23,753)** |
| **Valuation allowance** | **(52,301)** | **(45,432)** |
| **Net deferred tax assets (liabilities)** | **-** | **-** |

A valuation allowance of EUR 52,301 thousand (2011: EUR 45,432 thousand) has been recognised for temporary deductible differences due to uncertainty as to the realization of tax benefits in future years. The Company will continue to assess the valuation allowance and, to the extent it is determined that such allowance is no longer required, the tax benefits of the remaining deferred tax assets will be recognised at that time.

The Company's income tax losses carried forward arose in the fiscal years 2007-2012 and amount to EUR 269,067 thousand. Under Slovak tax legislation a Company is entitled to carry forward tax losses incurred prior to 31 December 2009 for five years and tax losses incurred thereafter for seven years. The carry forwards expire as follows:

| In thousands of EUR | 31 December 2012 | 31 December 2011 |
|---|---|---|
| 2012 | - | 28,485 |
| 2013 | 50,823 | 50,823 |
| 2014 | 140,460 | 140,460 |
| 2017 | 66,533 | 66,533 |
| 2018 | - | - |
| 2019 | 11,251 | - |
| **Total tax loss carry forwards** | **269,067** | **286,301** |

## 12. INTANGIBLE ASSETS

| In thousands of EUR | Software | Assets under development | Total |
|---|---|---|---|
| **Acquisition cost** | | | |
| **At 1 January 2012** | **27,218** | **491** | **27,709** |
| Additions | 1,138 | 1,138 | 2,611 |
| Disposals | - | - | - |
| Transfers | 1,155 | (1,155) | - |
| **At 31 December 2012** | **28,373** | **474** | **28,847** |
| **Accumulated amortisation** | | | |
| **At 1 January 2012** | **(10,752)** | **(142)** | **(10,894)** |
| Charge for the period | (3,086) | - | (3,086) |
| Disposals | - | | |
| **At 31 December 2012** | **(13,838)** | **(142)** | **(13,980)** |
| **Net book value at 31 December 2012** | **14,535** | **332** | **14,867** |

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

## 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 2012** | **92,422** | **906,894** | **3,314** | **1,002,630** |
| Additions | - | - | 29,952 | 29,952 |
| Disposals | (94) | (34,996) | (6) | (35,096) |
| Transfers – Assets held for sale | 223 | - | - | 223 |
| Transfers | 4 | 28,788 | (28,792) | - |
| **At 31 December 2012** | **92,555** | **900,686** | **4,468** | **997,709** |
| **Accumulated depreciation** | | | | |
| **At 1 January 2012** | **(27,182)** | **(333,531)** | **(538)** | **(361,251)** |
| Additions | (1,864) | (61,816) | - | (63,680) |
| Disposals | 61 | 34,737 | - | 34,798 |
| Transfers – Assets held for sale | 143 | - | - | 143 |
| Impairment loss | (72) | (1,935) | 4 | (2,003) |
| **At 31 December 2012** | **(28,914)** | **(362,545)** | **(534)** | **(391,993)** |
| **Net book value at 31 December 2012** | **63,641** | **538,141** | **3,934** | **605,716** |

| In thousands of EUR | Land and buildings | Machines, equipment, other assets | Assets under construction | Total |
|---|---|---|---|---|
| **Acquisition cost** | | | | |
| At 1 January 2011 | 135,583 | 864,647 | 11,849 | 1,012,080 |
| Additions | - | - | 59,906 | 59,906 |
| Disposals | (44) | (14,550) | - | (14,594) |
| Transfers – Assets held for sale | (46,985) | (7,131) | (645) | (54,761) |
| Transfers | 3,868 | 63,928 | (67,796) | - |
| **At 31 December 2011** | **92,422** | **906,894** | **3,314** | **1,002,630** |
| **Accumulated depreciation** | | | | |
| At 1 January 2011 | (36,680) | (290,745) | (538) | (327,963) |
| Charge for the period | (2,929) | (62,153) | - | (65,082) |
| Disposals | 14 | 13,979 | - | 13,993 |
| Transfers – Assets held for sale | 5,580 | 3,822 | - | 9,401 |
| Impairment loss | 6,834 | 1,566 | - | 8,400 |
| **At 31 December 2011** | **(27,182)** | **(333,531)** | **(538)** | **(361,250)** |
| **Net book value at 31 December 2011** | **65,240** | **573,363** | **2,776** | **641,380** |

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.

The impairment test required by IAS 36 was performed by management of the Company at the year end. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. The fair value less cost to sell of an asset was determined as its selling price adjusted for costs associated with the sale of the asset. The value in use of the asset was determined by discounted cash flows method. The 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. The relevant cash flows were estimated based on the 2013 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 8.71% used in the calculation was determined based on interest rates for incremental financing of fixed assets purchases by the Company as at the day of preparation of a financial statements and was adjusted for factors of time, risk and liquidity.

As a result of the procedures described above, the Company has increased an impairment loss by EUR 2,003 thousand due to a lower usage of assets and a decrease of cash inflows mainly from a transport revenues’ decrease in 2012.

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 18,463 thousand), wagons with an aggregate acquisition value of EUR 133,589 thousand (net book value EUR 113,252 thousand) and computing technology with a total acquisition value of EUR 2,772 thousand (net book value EUR 1,197 thousand).

Property, plant and equipment in the ownership of the Company with a total acquisition value of EUR 17,676 thousand (EUR 17,991 thousand at 31 December 2011) and with a net book value of EUR 14,473 thousand (EUR 14,874 thousand at 31 December 2011) is registered by the State as protected for cultural purposes.

Property, plant, equipment and inventories are 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 247,778 EUR thousand (EUR 300,841 thousand in 2010) and (iii) to a maximum of EUR 559,993 thousand (EUR 560,145 thousand in 2011).

In addition, motor vehicles have third party and accident insurance cover, the cost of which is immaterial.

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

## 14. INVESTMENT IN JOINT VENTURE

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

Details of the Company's joint ventures at 31 December 2012 and 2011 are as follows:

| | Equity | | Profit (loss) | |
|---|---|---|---|---|
| In thousands of EUR | 31 December 2012 | 31 December 2011 | 31 December 2012 | 31 December 2011 |
| BULK TRANSSHIPMENT SLOVAKIA, a. s. | 9,247 | 7,710 | 1,599 | 1,145 |

## 15. INVENTORIES

| In thousands of EUR | At cost 2012 | At lower of cost or net realizable value 2012 | At cost 2011 | At lower of cost or net realizable value 2011 |
|---|---|---|---|---|
| Electrical materials | 3,738 | 3,170 | 6,082 | 5,329 |
| Machine and metal-working materials | 3,809 | 3,066 | 5,849 | 4,832 |
| Diesel fuel | 1,362 | 1,362 | 2,164 | 2,112 |
| Chemicals and rubber | 629 | 601 | 488 | 488 |
| Protective tools | 281 | 281 | 330 | 279 |
| Other | 175 | 154 | 244 | 172 |
| **Total** | **9,994** | **8,634** | **15,157** | **13,211** |

## 16. TRADE AND OTHER RECEIVABLES

| In thousands of EUR | 31 December 2012 | 31 December 2011 |
|---|---:|---:|
| Domestic trade receivables | 27,134 | 35,813 |
| Foreign trade receivables | 12,465 | 16,486 |
| VAT receivables | 4,149 | 3,812 |
| Other receivables | 4,283 | 5,066 |
| Allowance for impaired trade and other receivables | (4,587) | (5,682) |
| | **43,444** | **55,495** |

At 31 December 2012 overdue receivables amounted to EUR 9,375 thousand (EUR 10,246 thousand at 31 December 2011). Trade receivables are non-interest bearing and are generally due within 30-90 days.
For details of related party receivables, refer to Note 26.

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

| | | | Past due but not impaired | | | | |
|---|---|---:|---:|---:|---:|---:|---:|
| Year | Total | Neither past due nor impaired | < 90 days | 90 – 180 days | 180 – 270 days | 270 – 365 days | > 365 days |
| 2012 | 43,444 | 41,681 | 1,366 | 8 | 19 | 35 | 335 |
| 2011 | 55,495 | 53,017 | 1,456 | 214 | 210 | 221 | 377 |

## 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 2012 | 31 December 2011 |
|---|---|---|
| Cash at banks and on hand and cash equivalents | 61 | 71 |
| Bank overdrafts | (95,041) | (64,535) |
| | **(94,980)** | **(64,464)** |

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 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| In thousands of EUR | Overdraft limit | Drawn down | Overdraft limit | Drawn down |
| Tatra banka, a.s. | 30,870 | 24,994 | 29,875 | 21,430 |
| Všeobecná úverová banka, a.s | 23,500 | 21,541 | 23,500 | 16,667 |
| UniCredit Bank Slovakia a.s. | 17,593 | 15,046 | 17,593 | 11,058 |
| Volksbank Slovakia, a.s. | 20,000 | 12,219 | - | - |
| Citibank Europe plc. | 13,278 | 11,276 | 13,278 | 7,614 |
| Slovenská sporiteľňa, a.s. | 20,000 | 9,963 | 10,000 | 1,750 |
| Československá obchodná banka, a.s. | 5,000 | - | 8,300 | 6,016 |
| Credit Agricole CIB S.A. | - | - | 16,597 | - |
| | **130,241** | **95,041** | **119,142** | **64,535** |

## 18. SHAREHOLDER'S EQUITY

*Share capital*

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

*Legal reserve fund*

On the Company's incorporation, in accordance with Slovak legislation, a legal reserve fund was established at 10% of the Company's registered capital, again through an in-kind contribution. Slovak legislation requires that the legal reserve fund be increased by amounts at least equal to 10% of annual net profit up to an amount equal to 20% of the Company's registered capital. Under the Company's Articles of Association, the legal reserve fund is not available for distribution and can only be used to cover losses or increase registered capital.
Based on the decision of the sole shareholder of 9 November 2010, the statutory reserve fund was utilized to cover the losses of the Company.

*Other funds*

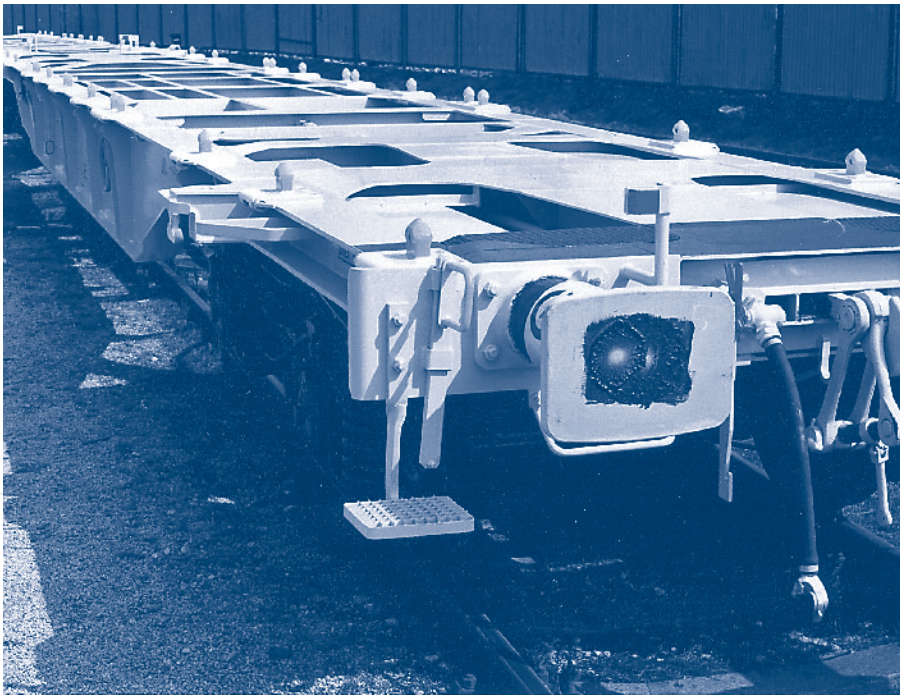
Other funds represent the difference between the value of the assets and liabilities contributed by the State on the Company's incorporation and through an additional capital contribution made on 2 November 2005 and that of the Company's registered capital and legal reserve fund, adjusted by an amount of EUR 4,216 thousand to restate an error in the initial valuation of the assets contributed by the State identified in 2006.
During 2008 the Company received an additional capital contribution of EUR 12,149 thousand from MTCRD, this being a previously unpaid part of the initial equity contribution made on the Company's incorporation. In addition, the Company was awarded penalty interest of EUR 8,830 thousand to compensate for the late payment of this contribution.

*Settlement of loss from previous accounting period*

The settlement of the 2011 statutory result was approved by the Company's General Meeting on 31 July 2012 and was booked to accumulated losses.

## 19. SUBORDINATED DEBT

Subordinated debt of EUR 165,970 thousand represents funding from the Ministry of Finance, approved by the Government on 4 March 2009 and received on 6 April 2009, to support the Company's operations. Under the terms of the original agreement, the first principal repayment was due in February 2011 and the loan has to be repaid in full by February 2019.
Under Supplement No. 6 to the subordinated debt agreement dated 22 August 2012 the first repayment was due and paid in August 2012 and the total balance is to be paid by August 2020.
The fair value of the subordinated debt is EUR 156,220 thousand as at 31 December 2012.
The loan bears interest at the rate of 6M EURIBOR + interest margin of 3.2%.



## 20. INTEREST-BEARING LOANS AND BORROWINGS

| In thousands of EUR | Maturity date | 31 December 2012 | 31 December 2011 |
|---|---|---|---|
| **Long-term loans** | | | |
| *Secured* | | | |
| Express Slovakia | 21 February 2012 | - | 1,497 |
| **Total** | | **-** | **1,497** |
| Short-term portion of loans | | - | (1,497) |
| Long-term portion of loans | | - | - |
| **Short-term loans** | | | |
| *Secured* | | | |
| Credit Agricole CIB S.A. | 31 December 2012 | - | 16,597 |
| HSBC | 31 August 2012 | - | 20,000 |
| Československá obchodná banka, a.s. | 28 March 2013 | 4,700 | - |
| Unsecured | | | |
| Československá obchodná banka, a.s. | 30 September 2012 | - | 4,360 |
| **Short-term loans** | | **4,700** | **40,957** |
| **Short-term portion of loans (see above)** | | **-** | **1,497** |
| **Overdrafts (Note 17)** | | **95,041** | **64,535** |
| **Total** | | **99,741** | **106,989** |

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

All loans presented in the table above, except for the Express Slovakia loan, are secured by promissory notes with a value of EUR 82,381 thousand (EUR 87,337 thousand at 31 December 2011), and with a nominal value of EUR 121,666 thousand (EUR 139,830 thousand as of 31 December 2011).

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 2012 the Company did not comply with the covenant for a loan in the amount of EUR 21,542 thousand (EUR 21,027 thousand as of 31 December 2011).

The fair value of interest-bearing loans and borrowings amounts to EUR 99,741 thousand (EUR 106,989 thousand at 31 December 2011).

All interest-bearing loans and borrowings bear interest at floating rates which range from 1.991 to 3.311% (2.933% to 5.096% in 2011).

## 21. EMPLOYEE BENEFITS

| In thousands of EUR | Retirement benefits | Jubilee payments | Disability benefits | Total |
|---|---|---|---|---|
| At 1 January 2012 | 10,633 | 3,505 | 184 | 14,322 |
| Current service cost | 604 | 193 | 3 | 800 |
| Interest expense | 459 | 151 | 9 | 619 |
| Actuarial gains and losses | 226 | (91) | (46) | 89 |
| Utilization of benefits | (423) | (381) | (36) | (838) |
| Transfers | - | - | - | - |
| Past service cost | (87) | 6 | 10 | (72) |
| **At 31 December 2012** | **11,414** | **3,382** | **123** | **14,919** |
| Current 31 December 2012 | 274 | 371 | 31 | 676 |
| Non-current 31 December 2012 | 11,140 | 3,011 | 92 | 14,243 |
| **At 31 December 2012** | **11,414** | **3,382** | **123** | **14,919** |

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

| The principal actuarial assumptions used were as follows: | 2012 | 2011 |
|---|---|---|
| Discount rate (% p.a.) | 3.8 | 5.0 |
| Future salary increases (%) | 0 | 2 |
| Mortality probability (male) (%) | 0.04 – 2.43 | 0.04 – 2.43 |
| Mortality probability (female) (%) | 0.02 – 0.91 | 0.02 – 0.91 |

At 31 December 2011 the Company presented certain of these liabilities as liabilities directly associated with assets held for sale (Note 25).

## 22. PROVISIONS

| In thousands of EUR | Environ-mental | Onerous contracts | Legal | Terminations | Total |
|---|---|---|---|---|---|
| At 1 January 2012 | 24,450 | - | 6,352 | 745 | 31,547 |
| Additions | 25 | - | 2,695 | 3,947 | 6,667 |
| Unwinding of discount | 1,214 | - | - | - | 1,214 |
| Reversals | (1,231) | - | (120) | - | (1,351) |
| Utilization | (600) | - | (15) | (745) | (1,360) |
| Transfers | - | - | - | - | - |
| **At 31 December 2012** | **23,858** | **-** | **8,912** | **3,947** | **36,717** |
| Current 31 December 2012 | 835 | - | - | 3,947 | 4,782 |
| Non-current 31 December 2012 | 23,023 | - | 8,912 | - | 31,935 |
| **At 31 December 2012** | **23,858** | **-** | **8,912** | **3,947** | **36,717** |

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

*Environmental matters*

In 2012, the Company updated its analysis of potential breaches of environmental regulations at its various sites, with the support of an environment specialist, Centrum environmentalnych sluzieb, s.r.o. (previously operating under the name, Life & Waste, s.r.o.). As a result of this analysis, and based on the findings of Centrum environmentalnych sluzieb, s.r.o., the Company has estimated that costs of EUR 23,858 thousand (EUR 34,290 thousand at 31 December 2011 – including liabilities of EUR 9,841 thousand classified as directly associated with assets held for sale) are required to remedy the significant environmental issues relating to water, oil and fuel management identified in the past.

Expenditures will be incurred through 2013 and 2014. A discount rate of 3.8% p.a. was used in the calculation.

*Legal claims*

Provisions for legal claims relate to a number of claims, the most significant being cases with REFIN B.A., Ltd. in the amount of EUR 5,898 thousand and with I4NEXT, Ltd. in the amount of EUR 2,471 thousand.

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

| In thousands of EUR | 31 December 2012 | 31 December 2011 |
|---|---:|---:|
| Domestic trade payables | 142,450 | 178,529 |
| Foreign trade payables | 6,206 | 6,653 |
| Payables due to employees | 6,041 | 6,746 |
| Payables due to social institutions | 3,347 | 4,006 |
| Other payables | 6,084 | 14,478 |
| | **164,128** | **210,412** |

At 31 December 2012 overdue trade payables amounted to EUR 4,071 thousand (EUR 20,159 thousand at 31 December 2011). For details of related party payables, refer to Note 26.

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

| In thousands of EUR | 31 December 2012 | 31 December 2011 |
|---|---:|---:|
| **At 1 January** | **134** | **126** |
| Additions | 624 | 710 |
| Utilization | (597) | (702) |
| **At 31 December** | **162** | **134** |

ZSSK CARGO
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## 24. COMMITMENTS AND CONTINGENCIES

*Finance lease commitments*

At 31 December 2012 the Company has finance lease commitments relating to the acquisition of 1,354 wagons, 12 powered vehicles and hardware equipment (1,274 wagons and 8 powered vehicles and hardware equipment at 31 December 2011). 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 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| | Minimum lease payments | Present value of payments | Minimum lease payments | Present value of payments |
| Within one year | 18,856 | 16,333 | 17,996 | 14,602 |
| After one year but not more than five years | 66,693 | 61,292 | 69,361 | 62,143 |
| More than five years | 9,422 | 9,230 | 13,961 | 13,242 |
| Total minimum lease payments | 94,971 | 86,855 | 101,318 | 89,987 |
| Less: future finance charges | (8,116) | - | (11,331) | - |
| **Present value of minimum lease payments** | **86,855** | **-** | **89,987** | **-** |

*Investing commitments*

The Company's investment expenditure for the period from 1 January 2013 to 31 December 2013 (1 January 2012 to 31 December 2012) is as follows:

| In thousands of EUR | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Land and buildings | 46 | 585 |
| Machines, equipment and other assets | 437 | 23,587 |
| Intangible assets | 73 | - |
| | **556** | **24,172** |

Expenditures of EUR 556 thousand (EUR 24,172 thousand at 31 December 2011) are committed under contractual arrangements.

*Contingent liabilities*

ČD CARGO, a.s. filed a lawsuit against the Company claiming an amount of EUR 1,475 thousand (including interest) in respect of unpaid VAT related to the Company's usage of their wagons for international transportation during the period from 24 May 2007 to 3 May 2008. A payment order for the amount claimed was issued on 14 May 2009 by the District Court Bratislava II and delivered to the Company on 30 June 2009. The Company appealed this payment order in the period stipulated by law and the court rescinded the order. Under Slovak legislation, trade practices of neighbouring countries and international agreements, the usage of wagons for international transportation is not deemed to be a rental arrangement and is, therefore, exempt from VAT. Consequently, supported by their legal advisors, management has concluded that the probability of ČD CARGO, a.s. succeeding in this legal action against the Company is remote and therefore no provision has been recorded in these financial statements.

## 25. 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 2012** | **41,405** | **3,309** | **645** | **45,359** |
| Disposals | (37,553) | (3,309) | (645) | (41,507) |
| Transfers | (223) | | | (223) |
| **At 31 December 2012** | **3,629** | **-** | **-** | **3,629** |

| In thousands of EUR | Employee benefits | Provisions | Total |
|---|---|---|---|
| At 1 January 2012 | 9,841 | 1,971 | 11,812 |
| Disposals | (9,841) | (1,950) | (11,791) |
| Utilization | - | (21) | (21) |
| **At 31 December 2012** | **-** | **-** | **-** |

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

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

Assets held for sale as at 31 December 2011 were sold for EUR 54,524 thousand to a related party on 1 February 2012. Assets held for sale were represented by land, buildings, machinery, equipment and assets under construction. Liabilities associated with assets held for sale represented a provision for site restoration in respect of contaminated land and for employee benefits.

Assets held for sale as at 31 December 2012 included land completing of the sale of the assets from 2012. The land was sold to a related party for EUR 4,299 thousand in February 2013.

## 26. RELATED PARTY DISCLOSURES

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

The following tables provide the total amount of transactions which have been entered into with related parties for the years ended 31 December 2012 and 2011:

| In thousands of EUR | 31 December 2012 | | | |
|---|---|---|---|---|
| Related party | Sales to related parties | Purchases from related parties | Amounts owed by related parties | Amounts owed to related parties |
| ŽSR | 1,573 | 89,950 | 450 | 109,603 |
| ZSSK | 71,462 | 5,508 | 2,445 | 846 |
| Ministerstvo financií SR | - | 7,158 | - | 156,220 |
| Slovenský plynárenský priemysel | - | 410 | - | (1) |
| BTS (joint venture) | 927 | 5,743 | 197 | 1,492 |
| Other related parties | 464 | 971 | 19 | 8 |

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

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

### *Statutory and supervisory bodies*

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

Board of Directors:

Ing. Vladimír Ľupták, chairman
(since 26 April 2012)
Ing. Jaroslav Daniška
(since 26 April 2012)
Ing. Peter Fejfar
(since 26 April 2012)
Ing. Pavol Ďuriník, PhD., chairman
(to 25 April 2012)
Ing. Mgr. Martin Štochmaľ,PhD.
(to 25 April 2012)
Ing. Jozef Virba
(to 25 April 2012)

Supervisory Board:

Ing. Martin Čatloš, chairman
(since 11 September 2012)
Ing. Radovan Majerský, PhD.
(since 11 September 2012)
Bc. Anton Andel
(since 2 February 2010)
Ján Baláž
(since 2 February 2010)
Ing. Radovan Majerský, PhD.
(since 11 September 2012)
Ing. Pavol Gábor
(since 11 September 2012)
Ing. Štefan Hlinka
(since 11 September 2012)
Ing. Karol Jasenovský, chairman
(to 10 September 2012)
JUDr. Ivo Nesrovnal
(to 10 September 2012)
Michal Bróska
(to 10 September 2012)
Ing. Ľudovít Kulcsár
(to 10 September 2012)

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

The Board of Directors' total remuneration approximated EUR 25 thousand (EUR 28 thousand in 2011). The total remuneration of members of the Supervisory Board amounted to EUR 22 thousand (EUR 28 thousand in 2011).

### *Loans granted*

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

## 27. FINANCIAL RISK MANAGEMENT

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

In the past the Company entered into derivative transactions, including forwards, options and swaps, to manage the currency risks arising from its operations. The Company did not entered into any derivative contracts in 2012 and 2011.

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

*Interest rate risk*

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

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

| In thousands of EUR | 31 December 2012 | 31 December 2011 |
|---|---:|---:|
| EURIBOR (+0.5%) | 666 | 517 |
| EURIBOR (-0.5%) | (267) | (517) |

*Liquidity risk*

The Company's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate number of credit facilities to cover the liquidity risk in accordance with its financing strategy. The amounts available in the form of credit facilities as at 31 December 2012 and 2011 consist of the following:

| In thousands of EUR | 31 December 2012 | 31 December 2011 |
|---|---:|---:|
| Long-term loan facilities available | - | 9,629 |
| Short-term loan facilities available | 28,592 | 36,151 |
| **Total loan facilities available** | **28,592** | **45,780** |

As at 31 December 2012 the Company did not have any banks guarantees (EUR 0 thousand at 31 December 2011).

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2012 based on contractual undiscounted payments.

| In thousand of EUR | On demand | Less then 3 months | From 3 to 12 months | From 1 to 5 years | Over 5 years | Total |
|---|---:|---:|---:|---:|---:|---:|
| Subordinated debt | - | 9,750 | 9,750 | 78,000 | 58,720 | 156,220 |
| Long-term loans | - | - | - | - | - | - |
| Trade and other payables | 4,071 | 48,136 | 7,454 | 104,468 | - | 164,129 |
| Obligations under finance leases | - | 718 | 15,615 | 61,292 | 9,230 | 86,855 |
| Short-term loans | - | 4,702 | 95,039 | - | - | 99,741 |
| | **4,071** | **63,306** | **127,858** | **243,760** | **67,950** | **506,945** |

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

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

### *Credit risk*

The Company provides a variety of customers with products and services, none of whom, based on volume and creditworthiness, present a significant credit risk, individually or in aggregate. The Company has three major customers, US Steel Košice, Budamar Logistics and Express Slovakia, sales to which represent 55% of transport and related revenues (51% in 2011), 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 2012 and 31 December 2011.

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 2012 the ratio has deteriorated in comparison with the previous period.

| In thousands of EUR | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Long-term debt, net of current portion (excluding subordinated debt and finance lease obligations) | - | - |
| Short-term debt, including current portion of long-term debt (excluding finance lease obligations) | 99,741 | 106,989 |
| **Debt** | **99,741** | **106,989** |
| **Equity** | **119,369** | **143,315** |
| **Debt to equity ratio (%)** | **84%** | **75%** |

## 28. EVENTS AFTER THE BALANCED SHEET DATE

No events occurred subsequent to 31 December 2011 that might have a material effect on the fair presentation of the matters disclosed in these financial statements. The Company sold land classified as held for sale to a related party in February 2013.

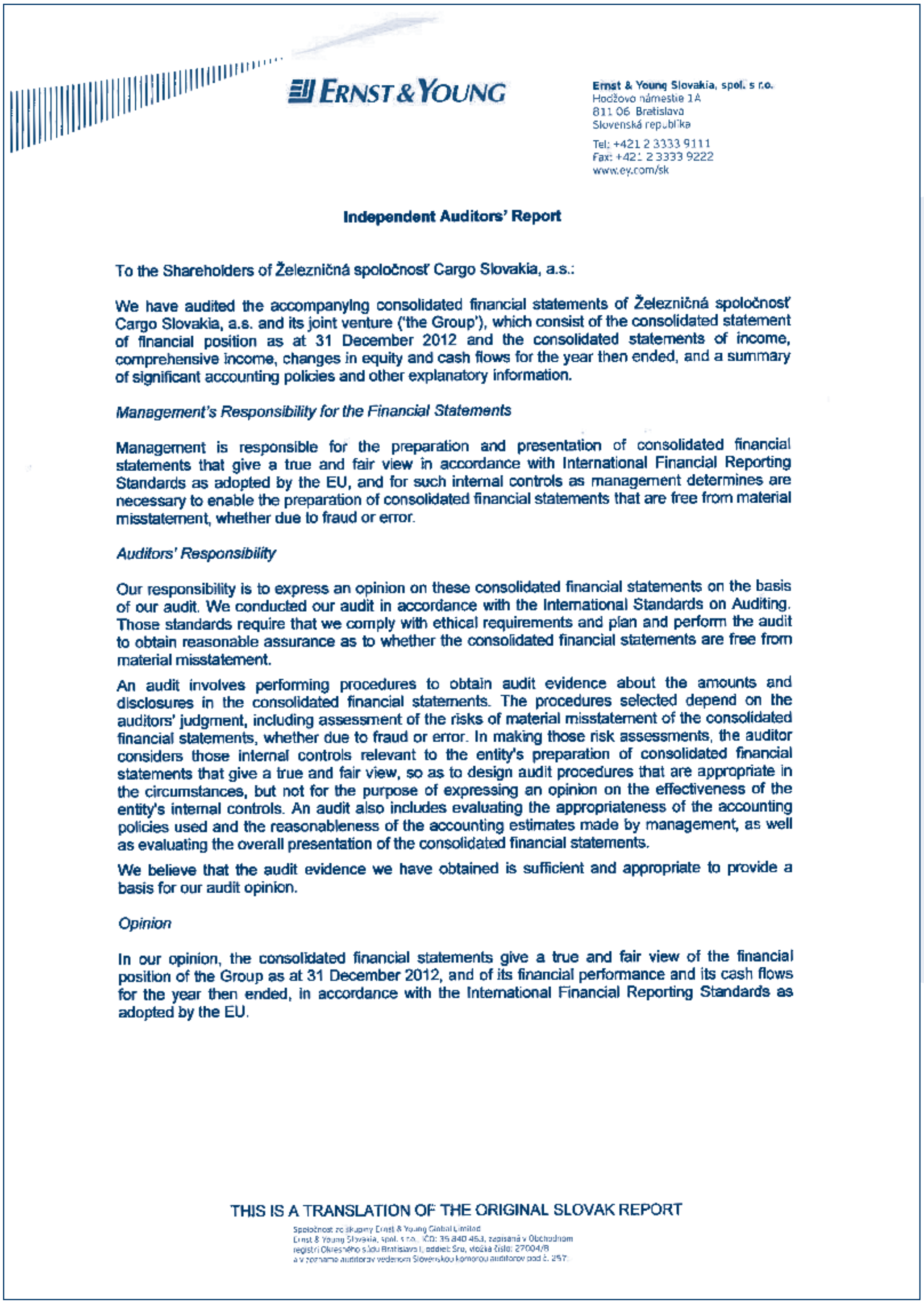
Approved by Ing. Vladimír Ľupták and Ing. Peter Fejfar on behalf of the Board of Directors on 16 April 2013.

# 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 2012

ZSSK CARGO

# APPENDIX TO THE AUDITOR´S REPORT



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## Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Železničná spoločnosť Cargo Slovakia, a.s. and its joint venture ('the Group'), which consist of the consolidated statement of financial position as at 31 December 2012 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

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

*Auditors' Responsibility*

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

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

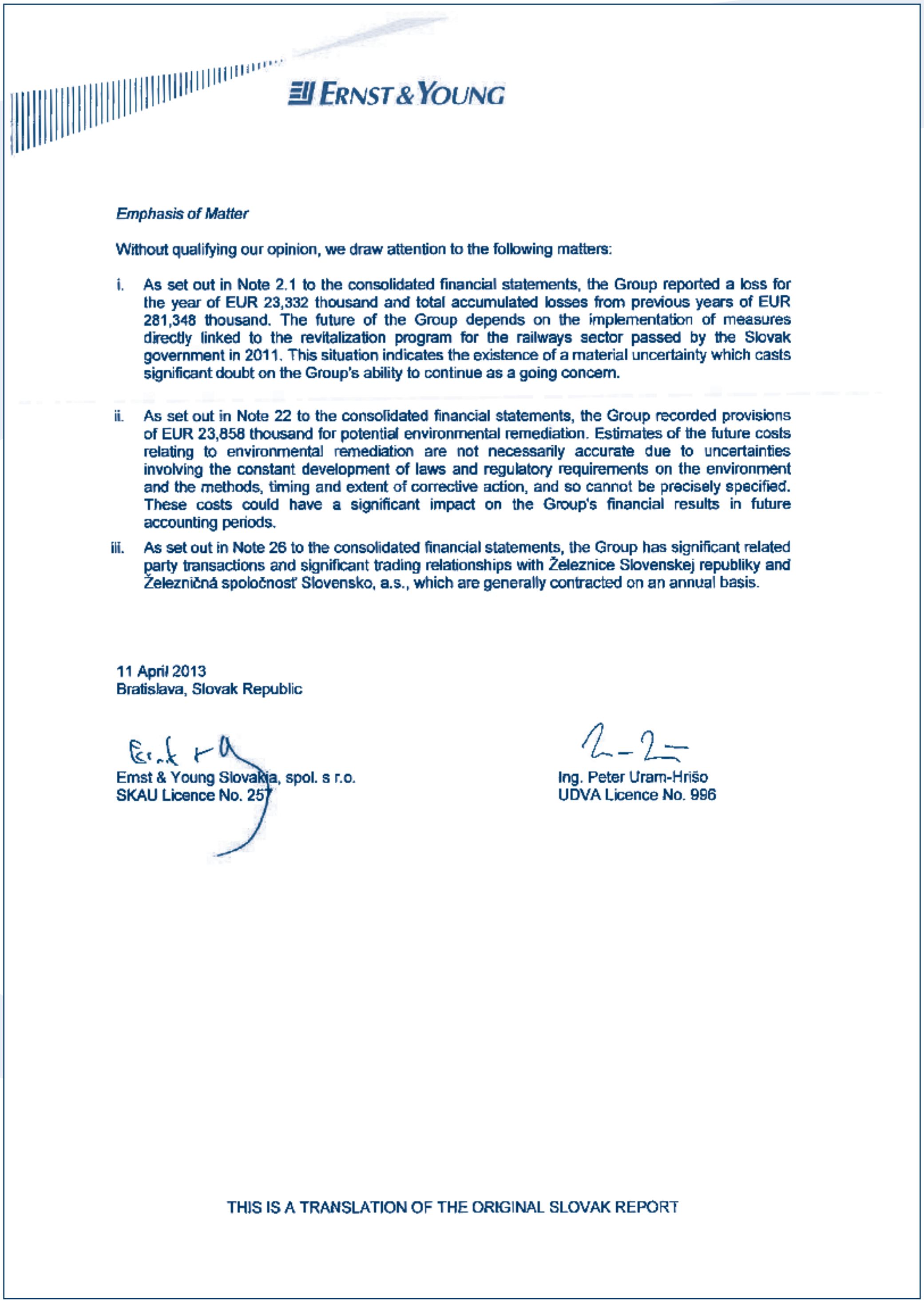
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2012, and of its financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards as adopted by the EU.

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT

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



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*Emphasis of Matter*

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

i. As set out in Note 2.1 to the consolidated financial statements, the Group reported a loss for the year of EUR 23,332 thousand and total accumulated losses from previous years of EUR 281,348 thousand. The future of the Group depends on the implementation of measures directly linked to the revitalization program for the railways sector passed by the Slovak government in 2011. This situation indicates the existence of a material uncertainty which casts significant doubt on the Group's ability to continue as a going concern.

ii. As set out in Note 22 to the consolidated financial statements, the Group recorded provisions of EUR 23,858 thousand for potential environmental remediation. Estimates of the future costs relating to environmental remediation are not necessarily accurate due to uncertainties involving the constant development of laws and regulatory requirements on the environment and the methods, timing and extent of corrective action, and so cannot be precisely specified. These costs could have a significant impact on the Group's financial results in future accounting periods.

iii. As set out in Note 26 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.

11 April 2013
Bratislava, Slovak Republic

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

Ing. Peter Uram-Hrišo
UDVA Licence No. 996

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

| In thousands of EUR | Note | 31 December 2012 | 31 December 2011 |
|---|---|---|---|
| **Revenues** | | | |
| Transportation and related revenues | 3 | 292,057 | 320,894 |
| Other revenues | 4 | 23,112 | 50,135 |
| | | **315,169** | **371,029** |
| **Costs and expenses** | | | |
| Consumables and services | 5 | (171,353) | (188,769) |
| Staff costs | 6 | (94,853) | (104,389) |
| Depreciation, amortisation and impairment of property, plant and equipment and intangible assets | 12, 13 | (68,748) | (59,846) |
| Other operating revenues (expenses), net | 7 | 8,940 | (1,118) |
| | | **(326,014)** | **(354,122)** |
| **Finance costs** | | | |
| Interest expense | 8 | (13,557) | (17,071) |
| Other finance revenues (costs), net | 9 | (216) | (170) |
| Interest income | | 716 | 21 |
| Share of the profit of the joint venture | 14 | 615 | 428 |
| | | **(12,442)** | **(16,792)** |
| Income tax | 11 | (45) | (18) |
| **Loss for the period** | | **(23,332)** | **96** |
| **Other comprehensive income for the period** | | **-** | **-** |
| **Total comprehensive income for the period** | | **(23,332)** | **96** |

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

Approved by Ing. Vladimír Ľupták and Ing. Peter Fejfar on behalf of the Board of Directors on 16 April 2013.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

| In thousands of EUR | Note | 31 December 2012 | 31 December 2011 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | 605,716 | 641,380 |
| Intangible assets | 12 | 14,867 | 16,815 |
| Investment in joint venture | 14 | 3,699 | 3,084 |
| Other non-current assets | 10 | 218 | 615 |
| | | **624,500** | **661,894** |
| **Current assets** | | | |
| Inventories | 15 | 8,634 | 13,211 |
| Trade and other receivables | 16 | 43,444 | 55,495 |
| Cash and cash equivalents | 17 | 61 | 71 |
| | | **52,139** | **68,777** |
| **Assets held for sale** | **25** | **3,629** | **45,360** |
| | | **55,768** | **114,137** |
| **TOTAL ASSETS** | | **680,268** | **776,031** |
| **EQUITY AND LIABILITIES** | | | |
| **Shareholder's equity** | | | |
| Share capital | 18 | 401,646 | 401,646 |
| Other funds | 18 | 1,228 | 1,228 |
| Accumulated losses | 18 | (281,348) | (258,016) |
| **Total equity** | | **121,526** | **144,858** |
| **Non-current liabilities** | | | |
| Subordinated debt | 19 | 136,720 | 146,470 |
| Employee benefits | 21 | 14,243 | 13,590 |
| Provisions | 22 | 31,935 | 30,186 |
| Trade and other payables | 23 | 104,466 | 56,092 |
| Finance lease liabilities | 24 | 70,522 | 75,385 |
| Other non-current liabilities | 23 | 162 | 134 |
| | | **358,048** | **321,857** |
| **Current liabilities** | | | |
| Subordinated debt | 19 | 19,500 | 19,500 |
| Interest-bearing loans and borrowings | 20 | 99,741 | 106,989 |
| Employee benefits | 21 | 676 | 732 |
| Provisions | 22 | 4,782 | 1,361 |
| Trade and other payables | 23 | 59,662 | 154,320 |
| Finance lease liabilities | 24 | 16,333 | 14,602 |
| | | **200,694** | **297,504** |
| Liabilities directly associated with assets classified as held for sale | 25 | - | 11,812 |
| **Total liabilities** | | **558,742** | **631,173** |
| **TOTAL EQUITY AND LIABILITIES** | | **680,268** | **776,031** |

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

Approved by Ing. Vladimír Ľupták and Ing. Peter Fejfar on behalf of the Board of Directors on 16 April 2013.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

| In thousands of EUR | Share capital | Legal reserve fund | Other funds | Accumulated losses | Total |
|---|---|---|---|---|---|
| **At 1 January 2011** | **401,646** | **-** | **1,228** | **(258,113)** | **144,761** |
| Loss for the period | - | - | - | 96 | 96 |
| Other comprehensive income | - | - | - | - | - |
| Total comprehensive income | - | - | - | 96 | 96 |
| **At 31 December 2011** | **401,646** | **-** | **1,228** | **(258,016)** | **144,858** |
| Loss for the period | - | - | - | (23,332) | (23,332) |
| Other comprehensive income | - | - | - | - | - |
| Total comprehensive income | - | - | - | (23,332) | (23,332) |
| **At 31 December 2012** | **401,646** | **-** | **1,228** | **(281,348)** | **121,526** |

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

Approved by Ing. Vladimír Ľupták and Ing. Peter Fejfar on behalf of the Board of Directors on 16 April 2013.

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CARGO ZSSK

# CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012

| In thousands of EUR | Note | 31 December 2012 | 31 December 2011 |
|---|---|---|---|
| **Operating activities** | | | |
| Loss for the period | | (23,332) | 96 |
| Adjustments for: | | | |
| Non-cash items | | | |
| ■ Depreciation, amortisation and impairment of property, plant and equipment and intangible assets | 12, 13 | 68,748 | 59,689 |
| ■ Loss (gain) on sale of property, plant and equipment | 7 | (4,386) | - |
| ■ Interest expense | 8 | 13,557 | 23,044 |
| ■ Interest income | | (716) | (21) |
| ■ Share of the profit of the joint venture | 14 | (615) | (428) |
| ■ Movements in provisions and employee benefits | | (7,724) | (22,171) |
| | | **45,532** | **60,209** |
| Working capital adjustments | | | |
| ■ Decrease in inventories | | 5,163 | 1,021 |
| ■ Decrease in trade and other receivables | | 13,542 | 4,818 |
| ■ Increase (decrease) in trade and other payables | | (52,348) | 50,900 |
| **Net cash flows  from operating activities** | | **11,889** | **117,376** |
| **Investing activities** | | | |
| Purchase of property, plant and equipment | 12, 13 | (31,090) | (62,506) |
| Proceeds from sale of property, plant and equipment | | 60,055 | 601 |
| **Net cash flows from (used in) investing activities** | | **28,965** | **(61,905)** |
| **Financing activities** | | | |
| Proceeds from loans and borrowings | | 4,700 | 2,509,264 |
| Repayment of loans and borrowings | | (42,454) | (2,586,017) |
| Repayment of subordinated debt | | (9,750) | - |
| Interest paid | | (21,416) | (20,608) |
| Interest received | | 716 | 21 |
| Payments of finance lease liabilities | | (3,166) | (17,061) |
| **Net cash flows used in financing activities** | | **(71,370)** | **(114,401)** |
| **Net (decrease) increase in cash and cash equivalents** | | **(30,516)** | **(59,358)** |
| **Cash and cash equivalents at 1 January** | **17** | **(64,464)** | **(5,106)** |
| **Cash and cash equivalents at 31 December** | **17** | **(94,980)** | **(64,464)** |

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

Approved by Ing. Vladimír Ľupták and Ing. Peter Fejfar on behalf of the Board of Directors on 16 April 2013.

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

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

### Principal activities

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

### The registered office of ZSSK CARGO

Drieňová 24
820 09 Bratislava
Slovak Republic

The group includes company and joint venture company.

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

## 2.1 BASIS OF PREPARATION AND MEASUREMENT

These consolidated financial statements were approved and authorized for issue by the Board of Directors on 16 April 2013. The General Meeting held on 31 July 2012 approved the Company's financial statements for the previous accounting period.

The consolidated financial statements have been prepared on the historical cost basis. These consolidated financial statements constitute the statutory accounts of ZSSK CARGO, prepared in accordance with Article 22 (1) of Slovak Act No. 431/2002 Coll. on Accounting for the accounting period from 1 January 2012 to 31 December 2012. Joint venture company is consolidated using Equity method.

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 loss of EUR 23,332 thousand for the year and total accumulated loss of EUR 281,348 thousand. In 2012, Group failed to meet financial covenants for one particular loan contract (note 20).

In 2012 and 2011, the Group implemented corrective measures approved by the Government for the revitalization of the railway sector. In 2013, the Group plans to continue applying these measures to reduce the Group's debt and to achieve balanced budget.

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 accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations as at 1 January 2012, all adopted by the European Union (hereinafter as the "EU"):

- IAS 12 Amendment to Income Taxes – Deferred Taxes: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012);
- IFRS 1 Amendment to First-Time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters (effective for annual periods beginning on or after 1 July 2011);
- IFRS 7 Amendment to Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements (effective for annual periods beginning on or after 1 July 2011).

The Group has not early adopted any standards and interpretations where adoption is not mandatory at the balance sheet date.

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

*Amendment to IAS 12 Income Taxes – Deferred Taxes: Recovery of Underlying Assets*

The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The adoption of this amendment did not have a significant impact on the financial position or the performance of the Group.

*Amendment to IFRS 1 First-Time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters*

The IASB provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The adoption of this amendment did not have a significant impact on the financial position or the performance of the Group.

*Amendment to IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements*

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with such an involvement. The adoption of this amendment did not have a significant impact on the financial position or the performance of the Group.

**Standards issued but not yet effective**

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

- IAS 1 Amendment to IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012);
- IAS 19 Revised IAS 19 Employee benefits (effective for annual periods beginning on or after 1 January 2013);
- IAS 27 Revised IAS 27 Separate Financial Statements (effective for annual periods beginning on or after 1 January 2014);
- IAS 28 Revised IAS 28 Investments in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2014);
- IFRS 9 Financial Instruments: Classification and Measurement (effective for annual periods beginning on or after 1 January 2015; this

standard has not been approved by the EU yet);

- IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2014);
- IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2014);
- IFRS 12 Disclosure of Involvement with Other Entities (effective for annual periods beginning on or after 1 January 2014);
- IFRS 13 Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013);
- IFRS 7 Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013);
- IAS 32 Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014);
- IFRS 1 Amendments to IFRS 1 Government Loans (effective for annual periods beginning on or after 1 January 2013, these amendments have not been approved by the EU yet).
- IFRS 10
- IFRS 11
- IFRS 12 Amendments to IFRS 10, IFRS 11 and IFRS 12 Transition guidance (effective for annual periods beginning on or after 1 January 2012, aligned with the effective dates of IFRS 10, IFRS 11 and IFRS 12, these amendments have not been approved by the EU yet).
- IFRS 10
- IFRS 12
- IAS 27 Amendments to IFRS 10, IFRS 12 and IAS 27 Investment entities (effective for annual periods beginning on or after 1 January 2014, these amendments have not been approved by the EU yet). The amendments apply to a particular class of business that qualify as investment entities.

*Annual Improvements May 2012*

The following standards and interpretations were amended:

- IFRS 1 First-time Adoption of International Financial Reporting Standards
- IAS 1 Presentation of Financial Statements
- IAS 16 Property Plant and Equipment
- IAS 32 Financial Instruments, Presentation
- IAS 34 Interim Financial Reporting

These improvements are effective for annual periods beginning on or after 1 January 2013. These improvements have not been approved by the EU yet.

The principal effects of these changes are as follows:

*Amendment to IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (OCI)*

The amendment to IAS 1 changes the grouping of items presented in OCI. Items that could be reclassified (or ‘recycled’) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The Group is considering an impact of this amendment on its separate financial statements.

*Amendments to IAS 19 Employee Benefits*

These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. Past service costs shall be recognised when the plan amendment or curtailment occurs. Prior to the amendment, past service costs were recognised as an expense on a straight-line basis over the average period until the benefits become vested.

*Revised IAS 27 Separate Financial Statements*

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group is considering an impact of this revision on its consolidated financial statements.

*Revised IAS 28 Investments in Associates and Joint Ventures*

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The Group is considering an impact of this revision on its consolidated financial statements.

*IFRS 9 Financial Instruments: Classification and Measurement*

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

*IFRS 10 Consolidated Financial Statements*

The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity. It defines the principle of control, and establishes controls as the basis for consolidation and sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. The standard stipulates the accounting requirements for the preparation of consolidated financial statements. The Group is considering an impact of this standard on its consolidated financial statements.

*IFRS 11 Joint Arrangements*

IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Group is considering an impact of this standard on its consolidated financial statements.

*IFRS 12 Disclosure of Involvement with Other Entities*

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is considering an impact of this standard on its consolidated financial statements.

Central Trailer Rentco

*IFRS 13 Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is considering an impact of this standard on its consolidated financial statements.

*Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities*

The amendment to IFRS 7 requires an entity to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement. The Group is considering an impact of these amendments on its consolidated financial statements.

*Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities*

The amendment to IAS 32 are intended to clarify existing application issues relating to the offsetting rules and reduce level of diversity in current practise. The Group is considering an impact of this amendment on its consolidated financial statements.

*Amendments to IFRS 1 Government Loans*

These amendments require first-time adopters to apply the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IAS 39 and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The Group is considering an impact of these amendments on its consolidated financial statements.

*Amendments to IFRS 10, IFRS 11 and IFRS 12 Transition guidance*

The amendments are intended to provide additional transition relief in IFRS 10 , IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, by “limiting the requirement to provide adjusted comparative information to only the preceding comparative period”. Also, amendments were made to IFRS 11 and IFRS 12 to eliminate the requirement to provide comparative information for periods prior to the immediately preceding period. The Group is considering an impact of these amendments on its consolidated financial statements.

It is expected that these changes will have no significant effect on the Group’s consolidated financial statements.

## 2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

**Critical judgments in applying accounting policies**

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

*Environmental matters*

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

*Lease arrangements*

The 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*

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 of the Group 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**

Securities and interests in joint ventures 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 the 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 and petty cash and cash equivalents, trade and other receivables.

*Subsequent measurement*

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

*Financial assets at fair value through profit or loss*

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

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

*Loans and receivables*

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

*Held-to-maturity investments*

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

As at 31 December 2012 and 2011, 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 recognized 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 2012 and 2011, no financial assets have been designated as vailable-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 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 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:

*Fair value hedge*

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

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

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

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

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

*Cash flow hedge*

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

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

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

As at 31 December 2012 and 2011, 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.

*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 2012 | 31 December 2011 |
|---|---|---|
| Inland transport: | | |
| ■ Transport of goods | 32,001 | 34,561 |
| ■ Wagon deposition | 7,379 | 11,101 |
| ■ Haulage fees | 1,127 | 788 |
| | **40,507** | **46,450** |
| International transport: | | |
| ■ Import | 104,216 | 118,709 |
| ■ Export | 113,045 | 113,670 |
| ■ Transit | 16,372 | 20,715 |
| | **233,633** | **253,095** |
| Other transport related revenues: | | |
| ■ Usage of wagons under RIV, PGV and AVV regimes | 6,163 | 7,759 |
| ■ Wagon rentals | 5,052 | 6,535 |
| ■ Cross-border services | 3,737 | 3,892 |
| ■ Other | 2,965 | 3,163 |
| | **17,917** | **21,349** |
| | **292,057** | **320,894** |

Transportation and related revenues include amounts invoiced to U.S. Steel Košice of EUR 67,201 thousand (2011: EUR 73,233 thousand) and to Budamar Logistics of EUR 66,383 thousand (2011: EUR 69,682 thousand).

## 4. OTHER REVENUES

| In thousands of EUR | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Repairs and maintenance | 8,573 | 32,468 |
| Operational performance | 5,911 | 9,527 |
| Property rentals | 4,001 | 3,978 |
| Other | 4,627 | 4,162 |
| | **23,112** | **50,135** |

Other revenues included revenues charged to ZSSK of EUR 12,583 thousand (2011: EUR 35,431 thousand) for repair and maintenance, operational performance, property rental and other support services.

## 5. CONSUMABLES AND SERVICES

| In thousands of EUR | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Network fees | (44,229) | (53,393) |
| Traction electricity | (33,338) | (35,336) |
| Traction crude oil | (18,415) | (18,709) |
| Materials | (14,596) | (25,227) |
| Wagon rentals | (13,617) | (13,816) |
| IT services and telecommunication charges | (9,284) | (8,622) |
| Foreign segments | (8,589) | - |
| Other energy costs | (5,535) | (8,064) |
| Third party transhipment services | (5,368) | (4,957) |
| Cross-border services | (4,161) | (4,342) |
| Rentals | (3,575) | (3,663) |
| Repair and maintenance | (3,368) | (2,110) |
| Security services | (1,600) | (1,824) |
| Travelling and entertainment | (1,289) | (1,404) |
| Cleaning of cars, property, waste disposal | (684) | (1,013) |
| Advisory and consultancy fees | (558) | (2,495) |
| Medical care | (484) | (450) |
| Training | (194) | (459) |
| Other | (2,469) | (2,885) |
| | **(171,353)** | **(188,769)** |

Consumables and services include amounts charged by ŽSR of EUR 89,950 thousand (2011: EUR 96,677 thousand), primarily relating to the usage of ŽSR's network (the Group has a one year contract with ŽSR which specifies planned kilometres and charge rates for different types of transport) and also to the purchase of traction energy (refer to Note 26).

## 6. STAFF COSTS

| In thousands of EUR | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Wages and salaries | (65,093) | (74,922) |
| Social security costs | (26,967) | (33,687) |
| Employee benefits (Note 21; 25) | 1,154 | (1,918) |
| Termination payments (Note 22) | (3,947) | 6,138 |
| | **(94,853)** | **(104,389)** |

Employee numbers at 31 December 2012 were 6,822 (2011: 8,054), thereof six were members of management (as members of the Board of Directors or directors of individual departments). Average employee numbers at 31 December 2012 were 7,015 (2011: 8,701). The average salary in 2012 amounted to EUR 796 (2011: EUR 733).

## 7. OTHER OPERATING REVENUES (EXPENSES), NET

| In thousands of EUR | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Provision for environmental matters (Note 22; 25) | 9,849 | (21) |
| Gains on sale of property, plant, equipment and inventories (Note 25; 26) | 5,730 | 1,251 |
| Provision for legal cases and onerous contracts (Note 22) | (2,575) | 2,746 |
| Allowance for doubtful debts | (666) | (404) |
| Insurance of assets | (2,553) | (2,574) |
| Other | (845) | (2,116) |
|  | **8,940** | **(1,118)** |

## 8. INTEREST EXPENSE

| In thousands of EUR | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Interest on loans and borrowings | (2,661) | (4,781) |
| Interest on subordinated debt | (7,158) | (7,841) |
| Interest charges on finance leases liabilities | (3,607) | (3,537) |
| Unwinding of discount on provisions and employee benefits | (131) | (912) |
|  | **(13,557)** | **(17,071)** |

## 9. OTHER FINANCE REVENUES (COSTS), NET

| In thousands of EUR | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Foreign exchange losses, net | (21) | (4) |
| Other revenues (costs) | (195) | (166) |
|  | **(216)** | **(170)** |

## 10. OTHER NON-CURRENT ASSETS

| In thousands of EUR | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Prepaid expenses | 218 | 615 |
|  | **218** | **615** |

## 11. INCOME TAX

The reported income tax represented a withholding tax paid abroad in the amount of EUR 45 thousand (2011: EUR 18 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 2012 | 31 December 2011 |
|---|---:|---:|
| Loss before tax | (23,332) | 96 |
| Tax charge at statutory tax rate of 19% | (4,433) | 19 |
| Tax paid abroad | (45) | (18) |
| Forfeit tax loss carry forwards | 5,412 | 2,269 |
| Change in valuation allowance | 6,752 | (2,297) |
| Non-deductible expenses | (7,731) | 9 |
| **Total income tax** | **(45)** | **(18)** |

Deferred tax assets and liabilities at 31 December related to the following (for year ended 31 December 2012 was used income tax rate 23% applicable in future accounting period):

| In thousands of EUR | 31 December 2012 | 31 December 2011 |
|---|---:|---:|
| **Deferred tax assets** | | |
| Tax loss carried forward | 61,885 | 54,397 |
| Provision for environmental matters | 5,487 | 6,515 |
| Provision for employee benefits | 3,432 | 3,096 |
| Allowance for trade and other receivables | 1,055 | 1,080 |
| Allowance for inventories | 313 | 370 |
| Provision for legal cases and onerous contracts | 2,050 | 1,207 |
| Termination payments | 908 | 142 |
| Other | 1,356 | 2,378 |
| | **76,486** | **69,185** |
| **Deferred tax liabilities** | | |
| Accelerated depreciation for tax purposes | (24,179) | (23,628) |
| Deferred tax on revaluation of joint venture | (496) | (298) |
| Other | (6) | (125) |
| | **(24,681)** | **(24,051)** |
| **Valuation allowance** | **(51,804)** | **(45,134)** |
| **Net deferred tax assets (liabilities)** | **-** | **-** |

A valuation allowance of EUR 51,804 thousand (2011: EUR 45,134 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.

The Group's income tax losses carried forward arose in the fiscal years 2007-2012 and amount to EUR 269,067 thousand. Under Slovak tax legislation a Group is entitled to carry forward tax losses incurred prior to 31 December 2009 for five years and tax losses incurred thereafter for seven years. The carry forwards expire as follows:

| In thousands of EUR | 31 December 2012 | 31 December 2011 |
|---|---:|---:|
| 2012 | - | 28,485 |
| 2013 | 50,823 | 50,823 |
| 2014 | 140,460 | 140,460 |
| 2017 | 66,533 | 66,533 |
| 2018 | - | - |
| 2019 | 11,251 | - |
| **Total tax loss carry forwards** | **269,067** | **286,301** |

## 12. INTANGIBLE ASSETS

| In thousands of EUR | Software | Assets under development | Total |
|---|---:|---:|---:|
| **Acquisition cost** | | | |
| At 1 January 2012 | 27,218 | 491 | 27,709 |
| Additions | | 1,138 | 1,138 |
| Disposals | - | - | - |
| Transfers | 1,155 | (1,155) | - |
| **At 31 December 2012** | **28,373** | **474** | **28,847** |
| **Accumulated amortisation** | | | |
| At 1 January 2012 | (10,752) | (142) | (10,894) |
| Charge for the period | (3,086) | - | (3,086) |
| Disposals | - | | |
| At 31 December 2012 | (13,838) | (142) | (13,980) |
| **Net book value at 31 December 2012** | **14,535** | **332** | **14,867** |

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

## 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 2012** | **92,422** | **906,894** | **3,314** | **1,002,630** |
| Additions | - | - | 29,952 | 29,952 |
| Disposals | (94) | (34,996) | (6) | (35,096) |
| Transfers – Assets held for sale | 223 | - | - | 223 |
| Transfers | 4 | 28,788 | (28,792) | - |
| **At 31 December 2012** | **92,555** | **900,686** | **4,468** | **997,709** |
| **Accumulated depreciation** | | | | |
| **At 1 January 2012** | **(27,182)** | **(333,531)** | **(538)** | **(361,251)** |
| Additions | (1,864) | (61,816) | - | (63,680) |
| Disposals | 61 | 34,737 | - | 34,798 |
| Transfers – Assets held for sale | 143 | - | - | 143 |
| Impairment loss | (72) | (1,935) | 4 | (2,003) |
| **At 31 December 2012** | **(28,914)** | **(362,545)** | **(534)** | **(391,993)** |
| **Net book value at 31 December 2012** | **63,641** | **538,141** | **3,934** | **605,716** |

| In thousands of EUR | Land and buildings | Machines, equipment, other assets | Assets under construction | Total |
|---|---:|---:|---:|---:|
| **Acquisition cost** | | | | |
| At 1 January 2011 | 135,583 | 864,647 | 11,849 | 1,012,080 |
| Additions | - | - | 59,906 | 59,906 |
| Disposals | (44) | (14,550) | - | (14,594) |
| Transfers – Assets held for sale | (46,985) | (7,131) | (645) | (54,761) |
| Transfers | 3,868 | 63,928 | (67,796) | - |
| **At 31 December 2011** | **92,422** | **906,894** | **3,314** | **1,002,630** |
| **Accumulated depreciation** | | | | |
| At 1 January 2011 | (36,680) | (290,745) | (538) | (327,963) |
| Charge for the period | (2,929) | (62,153) | - | (65,082) |
| Disposals | 14 | 13,979 | - | 13,993 |
| Transfers – Assets held for sale | 5,580 | 3,822 | - | 9,401 |
| Impairment loss | 6,834 | 1,566 | - | 8,400 |
| **At 31 December 2011** | **(27,182)** | **(333,531)** | **(538)** | **(361,250)** |
| **Net book value at 31 December 2011** | **65,240** | **573,363** | **2,776** | **641,380** |

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.

The impairment test required by IAS 36 was performed by management of the Group at the year end. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. The fair value less cost to sell of an asset was determined as its selling price adjusted for costs associated with the sale of the asset. The value in use of the asset was determined by discounted cash flows method. The Group as a whole is considered as a single cash generating unit.

No impairment losses have been identified based on the impairment test when comparing the recoverable amounts of the assets and carrying values. The relevant cash flows were estimated based on the 2013 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 8.71% 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 2,003 thousand due to a lower usage of assets and a decrease of cash inflows mainly from a transport revenues' decrease in 2012.

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 18,463 thousand), wagons with an aggregate acquisition value of EUR 133,589 thousand (net book value EUR 113,252 thousand) and computing technology with a total acquisition value of EUR 2,772 thousand (net book value EUR 1,197 thousand).

Property, plant and equipment in the ownership of the Group with a total acquisition value of EUR 17,676 thousand (EUR 17,991 thousand at 31 December 2011) and with a net book value of EUR 14,473 thousand (EUR 14,874 thousand at 31 December 2011) is registered by the State as protected for cultural purposes.

Property, plant, equipment and inventories are 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 247,778 EUR thousand (EUR 300,841 thousand in 2010) and (iii) to a maximum of EUR 559,993 thousand (EUR 560,145 thousand in 2011). In addition, motor vehicles have third party and accident insurance cover, the cost of which is immaterial.

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

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## 14. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

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

The Group's share of the assets and liabilities as at 31 December 2012 and 2011 and income and expenses for the years then ended of the jointly controlled entity are as follows:

| In thousands of EUR | 31 December 2012 | 31 December 2011 |
|---|---:|---:|
| Current assets | 1,424 | 1,239 |
| Non-current assets | 5,324 | 5,289 |
| **Total assets** | **6,748** | **6,528** |
| Current liabilities | 834 | 710 |
| Non-current liabilities | 2,215 | 2,734 |
| **Total liabilities** | **3,049** | **3,444** |
| **Net assets** | **3,699** | **3,084** |

| In thousands of EUR | 31 December 2012 | 31 December 2011 |
|---|---:|---:|
| Revenues | 2,542 | 2,569 |
| Cost of sales | (840) | (715) |
| Other expenses (net) | (943) | (1,326) |
| **Profit before income tax** | **759** | **528** |
| Income tax expense | (144) | (100) |
| **Net profit (loss)** | **615** | **428** |

## 15. INVENTORIES

| In thousands of EUR | At cost 2012 | At lower of cost or net realizable value 2012 | At cost 2011 | At lower of cost or net realizable value 2011 |
|---|---:|---:|---:|---:|
| Electrical materials | 3,738 | 3,170 | 6,082 | 5,329 |
| Machine and metal-working materials | 3,809 | 3,066 | 5,849 | 4,832 |
| Diesel fuel | 1,362 | 1,362 | 2,164 | 2,112 |
| Chemicals and rubber | 629 | 601 | 488 | 488 |
| Protective tools | 281 | 281 | 330 | 279 |
| Other | 175 | 154 | 244 | 172 |
| **Total** | **9,994** | **8,634** | **15,157** | **13,211** |

## 16. TRADE AND OTHER RECEIVABLES

| In thousands of EUR | 31 December 2012 | 31 December 2011 |
|---|---:|---:|
| Domestic trade receivables | 27,134 | 35,813 |
| Foreign trade receivables | 12,465 | 16,486 |
| VAT receivables | 4,149 | 3,812 |
| Other receivables | 4,283 | 5,066 |
| Allowance for impaired trade and other receivables | (4,587) | (5,682) |
|  | **43,444** | **55,495** |

At 31 December 2012 overdue receivables amounted to EUR 9,375 thousand (EUR 10,246 thousand at 31 December 2011).
Trade receivables are non-interest bearing and are generally due within 30-90 days.
For details of related party receivables, refer to Note 26.
As at 31 December, the ageing analysis of trade receivables is as follows:

|  |  |  | Past due but not impaired |  |  |  |  |
|---|---:|---:|---:|---:|---:|---:|---:|
| Year | Total | Neither past due nor impaired | < 90 days | 90 – 180 days | 180 – 270 days | 270 – 365 days | > 365 days |
| 2012 | 43,444 | 41,681 | 1,366 | 8 | 19 | 35 | 335 |
| 2011 | 55,495 | 53,017 | 1,456 | 214 | 210 | 221 | 377 |

## 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 2012 | 31 December 2011 |
|---|---|---|
| Cash at banks and on hand and cash equivalents | 61 | 71 |
| Bank overdrafts | (95,041) | (64,535) |
| | **(94,980)** | **(64,464)** |

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 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| **In thousands of EUR** | **Overdraft limit** | **Drawn down** | **Overdraft limit** | **Drawn down** |
| Tatra banka, a.s. | 30,870 | 24,994 | 29,875 | 21,430 |
| Všeobecná úverová banka, a.s | 23,500 | 21,541 | 23,500 | 16,667 |
| UniCredit Bank Slovakia a.s. | 17,593 | 15,046 | 17,593 | 11,058 |
| Volksbank Slovakia, a.s. | 20,000 | 12,219 | - | - |
| Citibank Europe plc. | 13,278 | 11,276 | 13,278 | 7,614 |
| Slovenská sporiteľňa, a.s. | 20,000 | 9,963 | 10,000 | 1,750 |
| Československá obchodná banka, a.s. | 5,000 | - | 8,300 | 6,016 |
| Credit Agricole CIB S.A. | - | - | 16,597 | - |
| | **130,241** | **95,041** | **119,142** | **64,535** |

ŽELEZNICE SLOVENSKEJ REPUBLIKY

## 18. SHAREHOLDER'S EQUITY

*Share capital*

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

*Legal reserve fund*

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

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

*Other funds*

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

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

*Settlement of loss from previous accounting period*

The settlement of the 2011 statutory result was approved by the Company's General Meeting on 31 July 2012 and was booked to accumulated losses.

## 19. SUBORDINATED DEBT

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

Under Supplement No. 6 to the subordinated debt agreement dated 22 August 2012 the first repayment was due and paid in August 2012 and the total balance is to be paid by August 2020. The fair value of the subordinated debt is EUR 156,220 thousand as at 31 December 2012.

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

## 20. INTEREST-BEARING LOANS AND BORROWINGS

| In thousands of EUR | Maturity date | 31 December 2012 | 31 December 2011 |
|---|---|---|---|
| **Long-term loans** | | | |
| *Secured* | | | |
| Express Slovakia | 21 February 2012 | - | 1,497 |
| **Total** | | **-** | **1,497** |
| **Short-term portion of loans** | | - | (1,497) |
| **Long-term portion of loans** | | - | - |
| | | | |
| **Short-term loans** | | | |
| *Secured* | | | |
| Credit Agricole CIB S.A. | 31 December 2012 | - | 16,597 |
| HSBC | 31 August 2012 | - | 20,000 |
| Československá obchodná banka, a.s. | 28 March 2013 | 4,700 | - |
| *Unsecured* | | | |
| Československá obchodná banka, a.s. | 30 September 2012 | - | 4,360 |
| **Short-term loans** | | **4,700** | **40,957** |
| **Short-term portion of loans (see above)** | | **-** | **1,497** |
| **Overdrafts (Note 17)** | | **95,041** | **64,535** |
| **Total** | | **99,741** | **106,989** |

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

All loans presented in the table above, except for the Express Slovakia loan, are secured by promissory notes with a value of EUR 82,381 thousand (EUR 87,337 thousand at 31 December 2011), and with a nominal value of EUR 121,666 thousand (EUR 139,830 thousand as of 31 December 2011).

Under the terms of a loan agreement the Group is required to meet a financial debt ratio covenant. The covenant is derived from the Group's management accounts. At 31 December 2012 the Group did not comply with the covenant for a loan in the amount of EUR 21,542 thousand (EUR 21,027 thousand as of 31 December 2011).

The fair value of interest-bearing loans and borrowings amounts to EUR 99,741 thousand (EUR 106,989 thousand at 31 December 2011).

All interest-bearing loans and borrowings bear interest at floating rates which range from 1.991 to 3.311% (2.933% to 5.096% in 2011).

## 21. EMPLOYEE BENEFITS

| In thousands of EUR | Retirement benefits | Jubilee payments | Disability benefits | Total |
|---|---|---|---|---|
| At 1 January 2012 | 10,633 | 3,505 | 184 | 14,322 |
| Current service cost | 604 | 193 | 3 | 800 |
| Interest expense | 459 | 151 | 9 | 619 |
| Actuarial gains and losses | 226 | (91) | (46) | 89 |
| Utilization of benefits | (423) | (381) | (36) | (838) |
| Transfers | - | - | - | - |
| Past service cost | (87) | 6 | 10 | (72) |
| **At 31 December 2012** | **11,414** | **3,382** | **123** | **14,919** |
| Current 31 December 2012 | 274 | 371 | 31 | 676 |
| Non-current 31 December 2012 | 11,140 | 3,011 | 92 | 14,243 |
| **At 31 December 2012** | **11,414** | **3,382** | **123** | **14,919** |

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

| The principal actuarial assumptions used were as follows: | 2012 | 2011 |
|---|---|---|
| Discount rate (% p.a.) | 3.8 | 5.0 |
| Future salary increases (%) | 0 | 2 |
| Mortality probability (male) (%) | 0.04 – 2.43 | 0.04 – 2.43 |
| Mortality probability (female) (%) | 0.02 – 0.91 | 0.02 – 0.91 |

At 31 December 2011 the Group presented certain of these liabilities as liabilities directly associated with assets held for sale (Note 25).

## 22. PROVISIONS

| In thousands of EUR | Environ-<br>mental | Onerous<br>contracts | Legal | Terminations | Total |
|---|---|---|---|---|---|
| At 1 January 2012 | 24,450 | - | 6,352 | 745 | 31,547 |
| Additions | 25 | - | 2,695 | 3,947 | 6,667 |
| Unwinding of discount | 1,214 | - | - | - | 1,214 |
| Reversals | (1,231) | - | (120) | - | (1,351) |
| Utilization | (600) | - | (15) | (745) | (1,360) |
| Transfers | - | - | - | - | - |
| **At 31 December 2012** | **23,858** | **-** | **8,912** | **3,947** | **36,717** |
| Current 31 December 2012 | 835 | - | - | 3,947 | 4,782 |
| Non-current 31 December 2012 | 23,023 | - | 8,912 | - | 31,935 |
| **At 31 December 2012** | **23,858** | **-** | **8,912** | **3,947** | **36,717** |

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

*Environmental matters*

In 2012, the Group updated its analysis of potential breaches of environmental regulations at its various sites, with the support of an environment specialist, Centrum environmentalnych sluzieb, s.r.o. (previously operating under the name, Life & Waste, s.r.o.). As a result of this analysis, and based on the findings of Centrum environmentalnych sluzieb, s.r.o., the Group has estimated that costs of EUR 23,858 thousand (EUR 34,290 thousand at 31 December 2011 – including liabilities of EUR 9,841 thousand classified as directly associated with assets held for sale) are equired to remedy the significant environmental issues relating to water, oil and fuel management identified in the past.

Expenditures will be incurred through 2013 and 2014. A discount rate of 3.8% p.a. was used in the calculation.

*Legal claims*

Provisions for legal claims relate to a number of claims, the most significant being cases with REFIN B.A., Ltd. in the amount of EUR 5,898 thousand and with I4NEXT, Ltd. in the amount of EUR 2,471 thousand.

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

| In thousands of EUR | 31 December 2012 | 31 December 2011 |
|---|---:|---:|
| Domestic trade payables | 142,450 | 178,529 |
| Foreign trade payables | 6,206 | 6,653 |
| Payables due to employees | 6,041 | 6,746 |
| Payables due to social institutions | 3,347 | 4,006 |
| Other payables | 6,084 | 14,478 |
| | **164,128** | **210,412** |

At 31 December 2012 overdue trade payables amounted to EUR 4,071 thousand (EUR 20,159 thousand at 31 December 2011). For details of related party payables, refer to Note 26.

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

| In thousands of EUR | 31 December 2012 | 31 December 2011 |
|---|---:|---:|
| **At 1 January** | **134** | **126** |
| Additions | 624 | 710 |
| Utilization | (597) | (702) |
| **At 31 December** | **162** | **134** |

## 24. COMMITMENTS AND CONTINGENCIES

*Finance lease commitments*

At 31 December 2012 the Group has finance lease commitments relating to the acquisition of 1,354 wagons, 12 powered vehicles and hardware equipment (1,274 wagons and 8 powered vehicles and hardware equipment at 31 December 2011). All leases are on a fixed repayment basis with floating interest rates derived fromEURIBOR, 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 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| | Minimum lease payments | Present value of payments | Minimum lease payments | Present value of payments |
| Within one year | 18,856 | 16,333 | 17,996 | 14,602 |
| After one year but not more than five years | 66,693 | 61,292 | 69,361 | 62,143 |
| More than five years | 9,422 | 9,230 | 13,961 | 13,242 |
| Total minimum lease payments | 94,971 | 86,855 | 101,318 | 89,987 |
| Less: future finance charges | (8,116) | - | (11,331) | - |
| **Present value of minimum lease payments** | **86,855** | **-** | **89,987** | **-** |

*Investing commitments*

The Group's investment expenditure for the period from 1 January 2013 to 31 December 2013 (1 January 2012 to 31 December 2012) is as follows:

| In thousands of EUR | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Land and buildings | 46 | 585 |
| Machines, equipment and other assets | 437 | 23,587 |
| Intangible assets | 73 | - |
| | **556** | **24,172** |

Expenditures of EUR 556 thousand (EUR 24,172 thousand at 31 December 2011) are committed under contractual arrangements.

*Contingent liabilities*

ČD CARGO, a.s. filed a lawsuit against the Group claiming an amount of EUR 1,475 thousand (including interest) in respect of unpaid VAT related to the Group's usage of their wagons for international transportation during the period from 24 May 2007 to 3 May 2008. A payment order for the amount claimed was issued on 14 May 2009 by the District Court Bratislava II and delivered to the Group on 30 June 2009. The Group appealed this payment order in the period stipulated by law and the court rescinded the order. Under Slovak legislation, trade practices of neighbouring countries and international agreements, the usage of wagons for international transportation is not deemed to be a rental arrangement and is, therefore, exempt from VAT. Consequently, supported by their legal advisors, management has concluded that the probability of ČD CARGO, a.s. succeeding in this legal action against the Group is remote and therefore no provision has been recorded in these financial statements.

## 25. 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 2012** | **41,405** | **3,309** | **645** | **45,359** |
| Disposals | (37,553) | (3,309) | (645) | (41,507) |
| Transfers | (223) | | | (223) |
| **At 31 December 2012** | **3,629** | **-** | **-** | **3,629** |

| In thousands of EUR | Employee benefits | Provisions | Total |
|---|---|---|---|
| At 1 January 2012 | 9,841 | 1,971 | 11,812 |
| Disposals | (9,841) | (1,950) | (11,791) |
| Utilization | - | (21) | (21) |
| **At 31 December 2012** | **-** | **-** | **-** |

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

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

Assets held for sale as at 31 December 2011 were sold for EUR 54,524 thousand was sold to a related party on 1 February 2012. Assets held for sale were represented by land, buildings, machinery, equipment and assets under construction. Liabilities associated with assets held for sale represented a provision for site restoration in respect of contaminated land and for employee benefits.

Assets held for sale as at 31 December 2012 included land completing of the sale of the assets from 2012. The land was sold to a related party for EUR 4,299 thousand in February 2013.

## 26. RELATED PARTY DISCLOSURES

Related parties of the Group comprise all companies under common ownership (meaning under the control of the State), the Group's joint venture and the Board of Directors.
The following tables provide the total amount of transactions which have been entered into with related parties for the years ended 31 December 2012 and 2011:

| In thousands of EUR | 31 December 2012 | | | |
|---|---|---|---|---|
| Related party | Sales to related parties | Purchases from related parties | Amounts owed by related parties | Amounts owed to related parties |
| ŽSR | 1,573 | 89,950 | 450 | 109,603 |
| ZSSK | 71,462 | 5,508 | 2,445 | 846 |
| Ministerstvo financií SR | - | 7,158 | - | 156,220 |
| Slovenský plynárenský priemysel | - | 410 | - | (1) |
| BTS (joint venture) | 927 | 5,743 | 197 | 1,492 |
| Other related parties | 464 | 971 | 19 | 8 |

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

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

*Statutory and supervisory bodies*

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

Board of Directors:

Ing. Vladimír Ľupták, chairman
(since 26 April 2012)
Ing. Jaroslav Daniška
(since 26 April 2012)
Ing. Peter Fejfar
(since 26 April 2012)
Ing. Pavol Ďuriník, PhD., chairman
(to 25 April 2012)
Ing. Mgr. Martin Štochmaľ,PhD.
(to 25 April 2012)
Ing. Jozef Virba
(to 25 April 2012)

Supervisory Board:

Ing. Martin Čatloš, chairman
(since 11 September 2012)
Ing. Radovan Majerský, PhD.
(since 11 September 2012)
Bc. Anton Andel
(since 2 February 2010)
Ján Baláž
(since 2 February 2010)
Ing. Radovan Majerský, PhD.
(since 11 September 2012)
Ing. Pavol Gábor
(since 11 September 2012)
Ing. Štefan Hlinka
(since 11 September 2012)
Ing. Karol Jasenovský, chairman
(to 10 September 2012)
JUDr. Ivo Nesrovnal
(to 10 September 2012)
Michal Bróska
(to 10 September 2012)
Ing. Ľudovít Kulcsár
(to 10 September 2012)

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

The Board of Directors' total remuneration approximated EUR 25 thousand (EUR 28 thousand in 2011). The total remuneration of members of the Supervisory Board amounted to EUR 22 thousand (EUR 28 thousand in 2011).

*Loans granted*

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

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## 27. FINANCIAL RISK MANAGEMENT

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

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

The Group did not entered into any derivative contracts in 2012 and 2011.

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

*Interest rate risk*

The Group's exposure to the risk of changes in market interest rates relates to the Group's long-term and short-term 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 thousand of EUR | 31 December 2012 | 31 December 2011 |
|---|---:|---:|
| EURIBOR (+0.5%) | 666 | 517 |
| EURIBOR (-0.5%) | (267) | (517) |

*Liquidity risk*

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate number of credit facilities to cover the liquidity risk in accordance with its financing strategy. The amounts available in the form of credit facilities as at 31 December 2012 and 2011 consist of the following:

| In thousand of EUR | 31 December 2012 | 31 December 2011 |
|---|---:|---:|
| Long-term loan facilities available | - | 9,629 |
| Short-term loan facilities available | 28,592 | 36,151 |
| **Total loan facilities available** | **28,592** | **45,780** |

As at 31 December 2012 the Group did not have any banks guarantees (EUR 0 thousand at 31 December 2011).

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2012 based on contractual undiscounted payments.

| In thousand of EUR | On demand | Less then 3 months | From 3 to 12 months | From 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| Subordinated debt | - | 9,750 | 9,750 | 78,000 | 58,720 | 156,220 |
| Long-term loans | - | - | - | - | - | - |
| Trade and other payables | 4,071 | 48,136 | 7,454 | 104,468 | - | 164,129 |
| Obligations under finance leases | - | 718 | 15,615 | 61,292 | 9,230 | 86,855 |
| Short-term loans | - | 4,702 | 95,039 | - | - | 99,741 |
| | **4,071** | **63,306** | **127,858** | **243,760** | **67,950** | **506,945** |

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

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

### *Credit risk*

*The Group provides a variety of customers with products and services, none of whom, based on volume and creditworthiness, present a significant credit risk, individually or in aggregate. The Group has three major customers, US Steel Košice, Budamar Logistics and Express Slovakia, sales to which represent 55% of transport and related revenues (51% in 2011), 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 2012 and 31 December 2011.

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 2012 the ratio has deteriorated in comparison with the previous period.

| In thousands of EUR | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Long-term debt, net of current portion (excluding subordinated debt and finance lease obligations) | - | - |
| Short-term debt, including current portion of long-term debt (excluding finance lease obligations) | 99,741 | 106,989 |
| **Debt** | **99,741** | **106,989** |
| **Equity** | **121,526** | **144,858** |
| **Debt to equity ratio (%)** | **82%** | **74%** |

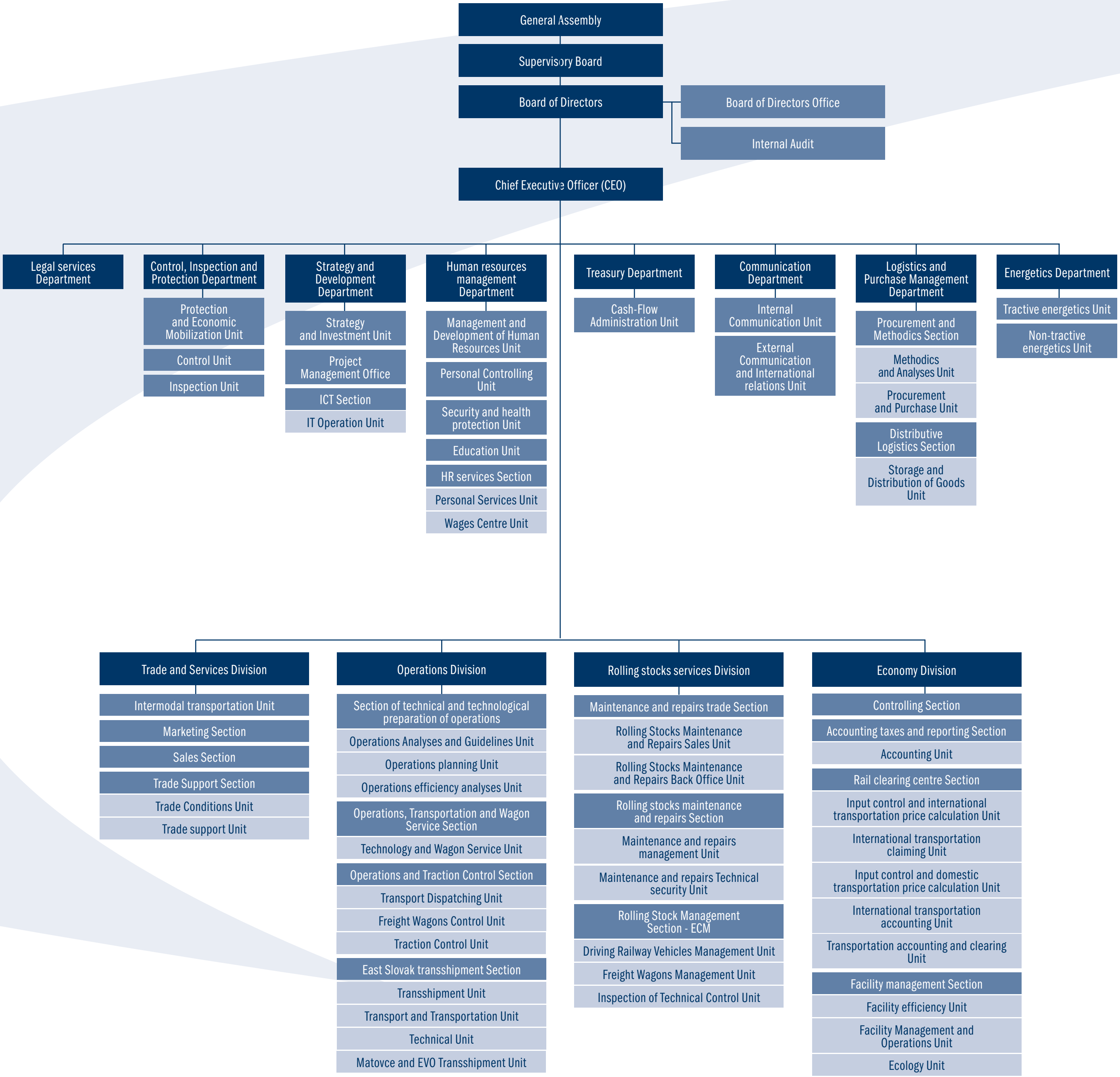
## 28. EVENTS AFTER THE BALANCED SHEET DATE

No events occurred subsequent to 31 December 2011 that might have a material effect on the fair presentation of the matters disclosed in these financial statements. The Group sold land classified as held for sale to a related party in February 2013.

Approved by Ing. Vladimír Ľupták and Ing. Peter Fejfar on behalf of the Board of Directors on 16 April 2013.

FLME
TKRU 409359 9
4561
ŽELEZNICE SLOVENS

# ORGANIZATION STRUCTURE AS AT 31. 12. 2012



- General Assembly
- Supervisory Board
- Board of Directors
  - Board of Directors Office
  - Internal Audit
- Chief Executive Officer (CEO)
  - Legal services Department
  - Control, Inspection and Protection Department
    - Protection and Economic Mobilization Unit
    - Control Unit
    - Inspection Unit
  - Strategy and Development Department
    - Strategy and Investment Unit
    - Project Management Office
    - ICT Section
      - IT Operation Unit
  - Human resources management Department
    - Management and Development of Human Resources Unit
    - Personal Controlling Unit
    - Security and health protection Unit
    - Education Unit
    - HR services Section
      - Personal Services Unit
      - Wages Centre Unit
  - Treasury Department
    - Cash-Flow Administration Unit
  - Communication Department
    - Internal Communication Unit
    - External Communication and International relations Unit
  - Logistics and Purchase Management Department
    - Procurement and Methodics Section
      - Methodics and Analyses Unit
      - Procurement and Purchase Unit
    - Distributive Logistics Section
      - Storage and Distribution of Goods Unit
  - Energetics Department
    - Tractive energetics Unit
    - Non-tractive energetics Unit
  - Trade and Services Division
    - Intermodal transportation Unit
    - Marketing Section
    - Sales Section
    - Trade Support Section
      - Trade Conditions Unit
      - Trade support Unit
  - Operations Division
    - Section of technical and technological preparation of operations
      - Operations Analyses and Guidelines Unit
      - Operations planning Unit
      - Operations efficiency analyses Unit
    - Operations, Transportation and Wagon Service Section
      - Technology and Wagon Service Unit
    - Operations and Traction Control Section
      - Transport Dispatching Unit
      - Freight Wagons Control Unit
      - Traction Control Unit
    - East Slovak transshipment Section
      - Transshipment Unit
      - Transport and Transportation Unit
      - Technical Unit
      - Matovce and EVO Transshipment Unit
  - Rolling stocks services Division
    - Maintenance and repairs trade Section
      - Rolling Stocks Maintenance and Repairs Sales Unit
      - Rolling Stocks Maintenance and Repairs Back Office Unit
    - Rolling stocks maintenance and repairs Section
      - Maintenance and repairs management Unit
      - Maintenance and repairs Technical security Unit
    - Rolling Stock Management Section - ECM
      - Driving Railway Vehicles Management Unit
      - Freight Wagons Management Unit
      - Inspection of Technical Control Unit
  - Economy Division
    - Controlling Section
    - Accounting taxes and reporting Section
      - Accounting Unit
    - Rail clearing centre Section
      - Input control and international transportation price calculation Unit
      - International transportation claiming Unit
      - Input control and domestic transportation price calculation Unit
      - International transportation accounting Unit
      - Transportation accounting and clearing Unit
    - Facility management Section
      - Facility efficiency Unit
      - Facility Management and Operations Unit
      - Ecology Unit

# Contacts

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e-mail: cargo.gr@zscargo.sk
www.zscargo.sk

## Foreign representation:

### General Agency in Ukraine

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General Agency in Ukraine
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