ŽELEZNIČNÁ SPOLOČNOSŤ SLOVENSKO
NÁRODNÝ DOPRAVCA

FINANCIAL STATEMENTS | 2016

ŽELEZNIČNÁ SPOLOČNOSŤ SLOVENSKO, a.s.

SEPARATE FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

As on 31 December 2016

ŽELEZNIČNÁ SPOLOČNOSŤ SLOVENSKO
NÁRODNÝ DOPRAVCA

SEPARATE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

As on 31 December 2016

Mgr. Filip Hlubocký
predseda Predstavenstva
Železničnej spoločnosti Slovensko, a. s.

Chairman of the Board of Directors
of Železničná spoločnosť Slovensko, a. s.

Dipl.-Ing. Patrik Horný
podpredseda Predstavenstva
Železničnej spoločnosti Slovensko, a. s.

Vice-Chairman of the Board of Directors
of Železničná spoločnosť Slovensko, a. s.

Bratislava, 28 February 2017

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STATEMENT OF FINANCIAL POSITION

in thousand EUR	Note	31 December 2016	31 December 2015
ASSETS			
Long-term assets			
Long-term tangible assets	4	909,919	951,010
Investments into real estates	4	1,342	346
Long-term intangible assets	5	9, 226	11,014
Financial assets	6	5, 676	5,626
Other long-term assets	7	805	519
		926,968	**968,515**
Current assets			
Inventories	8	10,090	8,481
Trade receivables and other receivables	9	25,441	31,893
Receivables resulting from the Contract on Public Transport Rail Services	22	44,367	15,620
Financial means and financial equivalents	10	939	838
		80,837	**56,832**
Held-for-sale assets	4	6,136	6,051
TOTAL ASSETS		**1,013,941**	**1,031,398**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	11	212,441	212,441
Statutory reserve fund	11	24,118	24,118
Other funds	11	-33,622	-33,622
Re-valuation of employee benefits	14	-799	-273
Unpaid loss	11	-53,499	-47,610
Loss (profit) in the reporting period	11	-5,152	-5,889
Total shareholders' equity		**143,487**	**149,165**
Long-term liabilities			
Long-term financial aid	12	24,106	46,706
Interest-bearing loans and borrowings	13	207,490	184,803
Employee benefits	14	11,324	10,763
Reserves	15	3,942	3,350
Financial derivatives	17	18,791	23,358
Deferred tax	20	8,226	9,259
Other long-term liabilities	18	386,905	414,021
		660,784	**692,260**
Short-term liabilities			
Short-term financial aid	12	22,600	8,000
Interest-bearing loans and borrowings	13	87,450	72,283
Employee benefits	14	924	756
Reserves	15	17,924	18,203
Trade liabilities and other liabilities	19	80,772	90,731
		209,670	**189,973**
Total liabilities		**870,454**	**882,233**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**1,013,941**	**1,031,398**

Accounting principles and notes are an inseparable part of the Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME
For the year ended on 31 December 2016

in thousand EUR	Note	31 December 2016	31 December 2015
Income			
Transport of passengers and related revenues	21	90,635	90,003
Compensation for services in the public interest	22	238,310	226,106
Income from subsidies	23	31,826	32,286
Other net operating (costs) revenues	24	3,398	9,715
		364,169	**358,110**
Costs and expenses			
Consumption and services	25	-178,683	-177,724
Personnel costs	26	-101,835	-97,636
Depreciation, amortisation and impairment of tangible assets	27	-8,970	-86,649
		-366,488	**-362,009**
Financial (costs) revenues			
Financial income	28	73	9
Financial costs	29	-3,719	-3,329
Net financial derivatives	30	-111	-193
		-3,757	**-3,513**
Tax costs	20	924	1,523
Loss (profit) in the reporting period		**-5,152**	**-5,889**
Other comprehensive income:			
Items not to be re-classified as income		**-526**	**650**
Re-valuation of employee benefits		-526	650
Items that might subsequently be re-classified into income		**0**	**0**
Other comprehensive income in the reporting period		**-526**	**650**
Total comprehensive income in the reporting period		**-5,678**	**-5,239**

STATEMENT OF CHANGES IN EQUITY
For the year ended on 31 December 2016

in thousand EUR	Share capital	Statutory reserve fund	Other funds	Re-valu-ation of employee benefits	Unpaid loss	Loss (profit) in the reporting period	**Total**
Balance as on 1 Janu-ary 2015	**212,441**	**24,118**	**-33,622**	**-923**	**-41, 231**	**-6,379**	**154,404**
Recognition of loss of 2014	0	0	0	0	-6,379	6,379	**0**
Other comprehensive income - 2015	0	0	0	650	0	0	**650**
Income (costs) of past reporting periods	0	0	0	0	0	0	**0**
Loss (profit) for the reporting period of 2015	0	0	0	0	0	-5,889	**-5,889**
Balance as on 31 December 2015	**212,441**	**24,118**	**-33,622**	**-273**	**-47,610**	**-5,889**	**149,165**
Recognition of loss of 2015	0	0	0	0	-5, 889	5, 889	**0**
Other comprehensive income - 2016	0	0	0	-526	0	0	**-526**
Income (costs) of past reporting periods	0	0	0	0	0	0	**0**
Loss (profit) for the reporting period of 2016	0	0	0	0	0	-5, 152	**-5, 152**
Balance as on 31 December 2016	**212,441**	**24,118**	**-33,622**	**-799**	**-53,499**	**-5,152**	**143,487**

STATEMENT OF CASH FLOW
For the year ended on 31 December 2016

in thousand EUR	Note.	31 December 2016	31 December 2015
Operating income		**344,888**	**406,710**
Income from main activity		114,179	136,477
Compensation for services in the public interest		209,559	210,486
Other income		11,027	14,252
Income from international clearing		1,508	2,041
Income from operating loans		8,615	43,454
Operating costs		**-315,101**	**-313,230**
Costs on material		-35,136	-47,405
Costs on services		-182,967	-172,215
Track access charges		-62,172	-62,810
Wages and other labour costs		-96,998	-93,203
Insurance		0	-407
Received interests		**70**	**9**
Paid interests		**-173**	**-327**
Dividends +/-		**0**	**0**
Income tax +/-		**-3**	**-1**
CASH FLOW FROM OPERATING ACTIVITY		29,681	93,161
Income from sale of long-term assets		30	2
State budget subsidies on investments		0	0
Investment subsidies from EU Structural Funds + State Budget		6,998	222,212
Returned investment subsidies from EU Structural Funds + State Budget		-128	-7,338
Purchase of long-term assets		-50,388	-268,971
CASH FLOW FROM INVESTMENT ACTIVITY		-43,488	-54,095
Financial income		**53,638**	**153,259**
Income from bank loans		52,072	145,457
Income from borrowings		0	0
Other financial income		1,566	7,802
Financial costs		**-36,827**	**-212,169**
Costs on bank loans		-22,833	-168,351
Costs on instalments of loans		-8,000	-30,000
Costs on settlement of liabilities from leasing		0	0
Other financial costs		-5,994	-13,818
Paid interests		**-2,903**	**-3,288**
CASH FLOW FROM FINANCIAL ACTIVITY		13,908	-62,198
Net increase (decrease) of financial means and financial equivalents		**101**	**-23,132**
Financial means and financial equivalents as on 1 January	**10**	**838**	**23,970**
Financial means and financial equivalents as on 31 December	**10**	**939**	**838**

Accounting principles and notes are an inseparable part of the Financial Statements.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
For the year ended on 31 December 2016

2 GENERAL INFORMATION

Information on the Company

Železničná spoločnosť Slovensko, a.s. ("ZSSK" or the "Company"), a joint-stock company registered in the Slovak Republic, was founded on 13 December 2004 as one of the two successor companies of Železničná spoločnosť, a.s. („ŽS"). On 1 January 2005 the Company was entered into the Companies´ Register of the District Court of Bratislava I, Section Sa, Entry no. 3497/B, company ID no. 35 914 939, tax registration no. 20 219 200 76.

The predecessor of the Company, ŽS, was founded on 1 January 2002 by being split from and overtaking a part of the railway company Železnice Slovenskej republiky (ŽSR) when it took over responsibility for provision of freight and passenger railway transport and transport services within Slovakia.
ŽS was dissolved without liquidation with effectiveness as of 31 December 2004. After its split-up it was replaced by two newly established successor companies: ZSSK for passenger transport and transport services, and Železničná spoločnosť Cargo Slovakia, a.s. (ZSSK CARGO) for freight transport and transport services.

The exclusive owner (a sole shareholder) of the Company is the State. The rights of the State as the shareholder are executed by the Ministry of Transport and Construction of the Slovak Republic (MTC) with the seat at Námestie slobody 6, 811 06 Bratislava. The Company does not figure as an associate partner with unlimited liability in any other company.

In terms of § 21 (4) of the Act no. 540/2001 Coll. on State Statistics as amended, in April 2016 ZSSK was included into the statistical register of organisations in the S13 sector – Public Administration.

Based on Act no. 423/2015 Coll. on Statutory Audit and on Amendments and Supplements to Act no. 431/2002 Coll. on Accounting as amended, the Company is an entity subject to oversight and is obliged to establish an audit committee since 17 June 2016. In compliance with Article 34 (4) d) of the above Act, the Supervisory Board of ZSSK acts as the audit committee.

Main activities

The Company as an operator of transport by rail provides for transport services in compliance with the interests of the State transport policy and market demand. The services in passenger transport are delivered in accordance with the State transport policy of the Slovak Republic, and are based on the Contract on Passenger Rail Transport Services concluded pursuant to Regulation 1370/2007 of the European Parliament and the Council (EC) on services in public interest and Act no. 514/2009 Coll. on transport by rail as amended, between Železničná spoločnosť Slovensko, a.s. as the transport operator and the State (represented by MTC) as the contracting authority.

Registered seat of the Company

Rožňavská 1
832 72 Bratislava
Slovakia

These Financial Statements are deposited at the registered seat of the Company and in the electronic registry of financial statements.

2.1 BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS

The Separate Financial Statements of the Company ("Financial Statements") for the previous reporting period were approved by the regular General Assembly which took place on 27 May 2016.

The Financial Statements were prepared on the basis of historic prices, except for derivative financial instruments which were evaluated in their fair value as on 31 December 2012. The Financial Statements are prepared in compliance with Article 17a of Act no. 431/2002 Coll. on accounting as amended, for the reporting period starting from 1 January 2016 and ending on 31 December 2016.

These Financial Statements were prepared with the going concern assumption, which fact is supported by the signed Contract on Passenger Rail Transport Services concluded on 27 December 2010 with the Slovak Republic represented by MTC for a period of 10 years, starting as of 1 January 2011.

The figures provided in the Financial Statements are reported in thousand EUR.

Consolidation of public administration

The Company does not prepare consolidated financial statements in terms of Article 22a of Act no. 431/2002 Coll. on accounting as amended. The Company is part of the Consolidated Financial Statements of public administration under the chapter on Transport, prepared by the Ministry of Finance of the Slovak Republic (MF). The most important transactions entering the consolidation include the relationships with MTC and MF in the area of operating and capital subsidies (notes 22, 23). The capital subsidies from the EU funds are not subject to consolidation. The Company has significant business transactions within the public administration consolidation with ZSSK Cargo and ŽSR. Relationships with other public administration bodies (municipalities, health insurance companies etc.) are insignificant as to their volume.
The Company, as an entity reporting pursuant to the International Financial Reporting Standards, enters the data for public administration consolidation pursuant to the national accounting standards in compliance with the instructions of MF.

The reporting period is a calendar year.

Declaration of conformity

The Financial Statements were reported in compliance with the International Financial Reporting Standards and all effective IFRS adopted within the EU. IFRS include standards and interpretations adopted by the International Accounting Standards Board (IASB) and IFRS Interpretation Committee (IFRIC).

At the moment, given the process of IRFS adopting and in respect of the nature of the Company activities, there are no differences between IFRS accounting principles applied by the Company and IFRS adopted by the EU.

2.2 CHANGES IN ACCOUNTING PRINCIPLES AND DISCLOSURE

The applied accounting principles are consistent with the principles applied to the Separate Financial Statements reported as on 31 December 2015.

The Company applied the following new and amended IFRS standards and IFRIC interpretations as of 1 January 2016, all adopted within the European Union (EU):

- IAS 19 Employee Benefits – Amendments to IAS 19 - effective for the reporting periods starting on or after 1 January 2016;
- IAS 16 and IAS 38 – Acceptable methods of depreciation and amortisation – Amendments to IAS 16 and IAS 38 – effective for the reporting periods starting on or after 1 January 2016;
- IAS 1 Disclosure initiative – Amendments to IAS 1 - effective for reporting periods starting on or after 1 January 2016;
- Annual improvements to IFRS, 2010 – 2012 Cycle - effective for the reporting period starting on or after 1 February 2015;
    - IAS 24 Related Party Disclosures – Key management personnel

Standards, interpretations and amendments to the standards that became effective in the course of 2016 are not relevant for the Company:

- IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the consolidation exception – Amendments to IFRS 10, IFRS 12 and IAS 28 - effective for the reporting periods starting on or after 1 January 2016;
- IFRS 11 Acquisition of an interest in a joint operation – Amendments to IFRS 11 – effective for the reporting periods starting on or after 1 January 2016;
- IAS 16 and IAS 41 Bearer Plants – Amendments to IAS 16 and IAS 41 – effective for the reporting periods starting on or after 1 January 2016;
- IAS 27 Equity method in separate financial statements – Amendments to IAS 27 – effective for the reporting periods starting on or after 1 January 2016;
- Annual improvements to IFRS, 2010 – 2012 Cycle - effective for the reporting period starting on or after 1 February 2015;
    - IFRS 2 Share-based payment – Definition of the vesting condition
    - IFRS 3 Business combinations – Reporting of a contingent consideration in case of a business combination
    - IFRS 8 Operating segments – Aggregation of operating segments
    - IFRS 8 Operating segments – Reconciliation of total assets of the reported segments to the assets of the reporting entity
    - IAS 16 Property, plant and equipment and IAS 38 Intangible assets – Revaluation method – proportionate restatement of accumulated depreciation
    - IFRS 3 Business combinations – scope exception for joint ventures
    - IFRS 13 Fair value measurement – Scope of portfolio exceptions in paragraph 52

- Annual improvements to IFRS, 2012 – 2014 Cycle - effective for the reporting periods starting on or after 1 January 2016;
    - IFRS 5 Non-current assets held for sale and discontinued operations – Changes in methods of disposal
    - IFRS 7 Financial instruments: Disclosure – Servicing contracts
    - IFRS 7 Financial instruments: Disclosures – Applicability of offsetting disclosures to condensed interim financial statements
    - IAS 19 Employee benefits – Discount rates
    - IAS 34 Interim financial reporting – Disclosure of information elsewhere in the interim financial report

2.2 CHANGES IN ACCOUNTING PRINCIPLES AND DISCLOSURE (CONT.)

International Financial Reporting Standards that have been issued but are not effective as yet

- IFRS 9 Financial Instruments - effective for the reporting periods starting on or after 1 January 2018;
- IFRS 15 Revenues from contracts with customers - effective for the reporting periods starting on or after 1 January 2018;
- IFRS 16 Leases - effective for the reporting periods starting on or after 1 January 2019;
- IAS 7 Disclosure initiative – Amendments to IAS 7 - effective for reporting periods starting on or after 1 January 2017;
- IAS 12 Recognition of deferred tax assets for unrealised losses - Amendments to IAS 12 - effective for the reporting periods starting on or after 1 January 2017;
- IFRS 2 Classification and measurement of share based payment transactions – Amendment to IFRS 2 – effective for the reporting periods starting on or after 1 January 2018;
- Applying of IFRS 9 Financial instruments and IFRS 4 Insurance contracts – Amendments to IFRS 4 - effective for the reporting periods starting on or after 1 January 2018;
- Amendments to IFRS 10 and IAS 28 – Sales or contributions of assets between an investor and its associate/joint venture – amendments have not yet been adopted by the EU;
- IAS 40: Investment property (amendments) - effective for the reporting periods starting on or after 1 January 2018;
- IFRIC 22: Foreign currency transactions and advance consideration – the interpretation has not yet been adopted by the EU;
- Annual improvements to IFRS, 2009 – 2011 Cycle - effective for the reporting period starting on or after 1 January 2017 / 2018;
  - IFRS 1 First-time adoption of International Financial Reporting Standards
  - IAS 28 Investments in associates and joint ventures
  - IFRS 12 Disclosure of interest in other entities

2.3 SIGNIFICANT ACCOUNTING ASSESSMENTS, ESTIMATES AND ASSUMPTIONS

Significant accounting estimates and assumptions

Preparation of the Financial Statements in accordance with IFRS requires use of estimates and assumptions which affect the items reported in the Financial Statements and the Notes to the Financial Statements. Even if these estimates are based on the best knowledge of the current circumstances and methods, the actual results may differ from these estimates. A more detailed description of the estimates is specified in the respective notes, however, the most important estimates include the following:

Lawsuits
The Company has been a party to several lawsuits and civil litigations arisen from its ordinary activities. The Company makes use also of services provided by external legal advisors and experience from previous similar lawsuits to determine probable outcomes of lawsuits and to establish reserves.

Quantification and timing of environmental liabilities
The Company makes estimates of future cash flows related to the environmental liabilities by comparison of prices, use of analogies with similar past activities and other estimates. The amount of the reserve and assumptions for calculation of the reserve are re-evaluated on an annual basis, always as on the balance-sheet date. Even if these estimates are based on the best knowledge of the current circumstances and methods, the actual results may differ from these estimates.

2.3 SIGNIFICANT ACCOUNTING ASSESSMENTS, ESTIMATES AND ASSUMPTIONS (CONT.)

Assets impairment

As on each reporting date, the Company determines whether there is an indication of assets impairment. If there is any such indication, an estimate of a recoverable amount of the asset in question is made or an estimate of the cash-generating unit, to which the asset was classified. When determining the useful value, the Company has to make an estimate of future expected cash flows and choose a suitable discount rate for calculation of the present value of cash flows. If necessary, the net selling price is determined on the basis of the market development in Slovakia and other Central European countries.

Employee benefits and severance pay

Costs on the scheme of employee benefits and severance pay are determined by actuarial calculations. These calculations contain estimates of discount rates, future growth of wages, mortality rate or fluctuation. Given the long-term nature of these schemes, such estimates are subject to uncertainty to a great degree.

Depreciation period and residual value of long-term tangible assets

An estimate of lifespan of a long-term asset results from an assessment based on the Company experience with a similar asset. Depreciation period and residual value of long-term tangible assets are determined on the basis of the current strategic goals of the Company. As on the balance-sheet date, it is examined whether the used estimates are still suitable for such determination.

Fair value measurement of assets and liabilities according to IFRS 13

IFRS 13 did not introduce new requirements stipulating when to measure at fair value, but stipulated manners of fair value measurement and specified the requirements for disclosure in case of fair value measurement. Depending on the measurement manner, three levels of measurement of assets and liabilities were determined. Individual levels were defined as follows:

Level 1 – quoted prices (unadjusted) on active markets for identical assets or liabilities that the Company can access at the measurement date;

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;

Level 3 – inputs of assets or liabilities that are unobservable according to market data.

Measurement of non-financial items:

in thousand EUR

Assets	Level 1	Level 2	Level 3
Investment property (IAS 40)			1,342
Assets held for sale (IFRS 5)			6,136
of which: real estates			5,996
machines and other moveable assets			140
Total as on 31 December 2016			**7,478**

Assets	Level 1	Level 2	Level 3
Investment property (IAS 40)			346
Assets held for sale (IFRS 5)			6,051
of which: real estates			5,996
machines and other moveable assets			55
Total as on 31 December 2015			**6,397**

2.3 SIGNIFICANT ACCOUNTING ASSESSMENTS, ESTIMATES AND ASSUMPTIONS (CONT.)

Measurement used to derive fair values at Level 3:
Fair value of investments into real estates at Level 3 as on 31 December 2016 amounted to EUR 1,342 thousand (as on 31 December 2015 in the amount of EUR 346 thousand).
Fair value of assets held for sale at Level 3 as on 31 December 2016 amounted to EUR 6,136 thousand (as on 31 December 2015 to EUR 6,051 thousand).
Fair value of investments into real estates and assets held for sale was determined by a qualified estimate.
Description of the measurement technique:

- physical characteristics of assets, their size, location, demographic development etc. are taken into account in measurement,
- legal aspects that take into account limits of the asset´s use, its distribution, change in use and impact of zone planning
- offers on internet real estate market, strength of buyers in the given region, costs on changes in the asset use are taken into consideration,
- in case of machines, the fair value is derived from the carrying amount representing an expert-determined value, reduced by amortisation, due to a missing active market and specific features of some assets.

Description of the measurement process:
Measurement is carried out by the specific Company departments based on their technical knowledge, information available on internet, real estate market and experience from sale of similar assets.

Measurement of financial derivatives:

in thousand EUR			
Derivative	Level 1	Level 2	Level 3
EUROFIMA IRIS (NOMURA)			-18,791
Total as on 31 December 2016			**-18,791**

Fair value of financial derivatives

The fair value of financial derivatives was determined via the method of future expected discounted cash flows.

The Monte Carlo simulation was used to calculate future cash flows of derivatives at Level 3. The simulation generated values of individual underlying assets of financial derivatives (3M Euribor, 6M Euribor, IRIS index) based on their probability distribution while respecting the volatilities, return rate compared to the long-term average, and statistical correlation of individual underlying assets.
The data from the Bloomberg system were a source of the simulation input data. The input data include the current and historic market values of the underlying tools, their volatility and statistical correlations.

2.3 SIGNIFICANT ACCOUNTING ASSESSMENTS, ESTIMATES AND ASSUMPTIONS (CONT.)

The fair value of individual derivatives is affected by development of the following underlying instruments: 6M Euribor, 3M Euribor, Index IRIS, calculated by Nomura International plc. The cash flows were discounted by a rate calculated from the zero-coupon curve.

Taxes
Deferred tax liabilities are recognised in case of all deductible temporary differences and the carry-forward of unused tax losses to the extent that it is probable that future taxable profit will enable to redeem these deductible temporary differences and unused tax losses carried forward.

3 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

a) Presentation currency

Data in these Separate Financial Statements are expressed in the Euro currency which is the functional and presentation currency of the Company.
Transactions in a foreign currency are re-calculated into EUR by a reference exchange rate determined and published by the European Central Bank or the National Bank of Slovakia on the day preceding the day of the accounting case. Cash assets and liabilities in a foreign currency are recalculated by the exchange rate of the functional currency prevailing on the balance-sheet date. All differences are included into the Statement of Comprehensive Income. Non-monetary items evaluated in historic prices in a foreign currency are recalculated by the exchange rate prevailing on the day of the initial transaction..

b) Tangible assets

Tangible assets are reported in their acquisition prices without costs on everyday servicing, after deduction of accumulated depreciation and accumulated impairment. If a substantial part of tangible assets needs to be replaced in intervals, these components are reported as individual tangible assets with a specific lifespan and depreciation. If repairs of long-term tangible assets are done, involving replacement of significant components, costs on such repair are included in the acquisition price of the long-term tangible asset, if the reporting criteria are met.

Repairs and maintenance are reported in the Statement of Comprehensive Income as costs of the reporting period, in which the given work was carried out. Assets are depreciated evenly during their lifespan period (20-50 years in case of buildings, 3-34 years in case of machines, equipment and other assets), while lands are not depreciated.

Tangible assets are written-off when sold or if no future economic benefits are expected out of their use. Profit or loss of disposed-of assets (calculated as the difference between net revenues from sale and the carrying amount) is included in the Statement of Comprehensive Income in the year, in which the asset is disposed of.
The residual values of assets, lifespans and methods are regularly examined and, if necessary, adjusted at the end of each financial year.

c) Intangible assets

Intangible assets are reported in their acquisition prices, after deduction of adjustments and accumulated impairment.
Assets are depreciated evenly during their lifespan (2-5 years).

3 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONT.)

An intangible asset is disposed of if sold, or if no future economic benefits are expected from its use or sale. Profit or loss of disposed-of assets (calculated as the difference between net revenues from sale and the carrying amount) is included in the Statement of Comprehensive Income in the year, in which the asset is disposed of.
The residual values of intangible assets, lifespans and methods are regularly examined and, if necessary, adjusted at the end of each financial year.

d) Long-term assets held for sale

Long-term assets and groups to be disposed of, classified as held for sale are measured in the lower of these two amounts: carrying amount and fair value reduced by costs on sale. Long-term assets and groups to be disposed of are classified as held for sale if their carrying amount may be recovered via a sale transaction rather than continuous use. This condition is considered fulfilled only in case a sale is highly probable and the asset or a group to be disposed of are ready for an immediate sale in the current condition. The Company management has to be involved in the sale, which is presumed to be completed within one year of the classification date.

Long-term assets classified as held for sale are not depreciated.

e) Inventories

Inventories are measured in the lower of the acquisition price or net realisable value, after adjustments to low-turn or useless inventories are created. Costs on bought inventories include the purchase price of inventories and costs related to their acquisition (transport costs, insurance, duty, commissions, excise tax). Weighted average method is used to calculate the acquisition price.

A net recoverable value is the estimated selling price at ordinary activity, reduced by estimated costs necessary for sale.

f) Impairment of non-financial assets

As at each reporting date, the Company assesses whether there is an indication of assets impairment. If there is such indication or a yearly asset impairment test is required, the Company makes an estimate of the recoverable amount of the assets. The recoverable amount of an asset is the higher of its fair value or cash-generating unit reduced by costs on sale and its value in use. It is determined for individual assets only if the asset in question does not generate an increase in monetary means, which are usually independent of gains from other assets or groups of assets.

If the carrying amount of assets is higher than their recoverable amount, the asset is considered impaired and is decreased down to the recoverable amount. When assessing the value in use, the assumed future cash flows are discounted down to their present value by a discount rate before taxation which reflects the present market evaluations of the time value of money and risks specific for the asset in question.

Impairment losses are reported in the Statement of Comprehensive Income as costs on depreciation, amortisation and asset impairment.

As on each reporting date, it is assessed whether there is an indication that impairment losses reported in the previous period do not exist or should be reduced. If there is any such indication, an estimate of the recoverable amount is made. Impairment loss reported in the previous period is recognised only when the estimates used to determine the recoverable amount of the asset changed since the last impairment loss was reported. In that case the carrying amount of the asset is increased up to its recoverable amount. Such increased amount may not exceed the carrying amount (after deduction of depreciation) which would be determined if no impairment loss was reported in the previous years.
The amount is reported in the Comprehensive Income. After such recognition, in the future periods depreciation is adjusted so that the adjusted carrying amount reduced by residual value would be allocated systematically during the remaining lifespan.

3 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONT.)

g) Financial assets

Initial recognition and measurement
Financial assets are first recognised at the moment when the Company becomes a party to the contractual provisions concerning the financial instrument. At initial recognition, financial assets are measured at their fair value which (to the exception of financial assets measured at their fair value with changes reported into profit or loss) is increased by costs directly related to acquisition of the financial asset. The best proof of the fair value of a financial asset at its initial recognition is usually the transaction price, i.e. the fair value given for the procured asset. Receivables without an interest rate are initially measured in the amount of the receivable, if the effect of their discounting to the present value, i.e. the effect of fair value determination, is insignificant.

Financial assets of the Company consist of financial means in cash, financial means on bank accounts, short-term and long-term receivables and ownership interests.

Subsequent measurement

Subsequent measurement of financial assets depends on their classification into categories according to IAS 39 where the four following categories of financial assets are distinguished.

Financial assets measured at fair value with changes reported as profit or loss

The financial assets in this category are measured at fair value with changes reported through profit and loss. The category includes two groups of financial assets – financial assets held for trading and financial assets designated to be measured at fair value through profit and loss.

Financial assets held for trading are the ones procured or originated with the purpose of their short-term sale, or are part of the portfolio of jointly managed instruments, for which there is evident trading in the recent period with a short-term profit generation. Assets held for trading include also derivatives with a positive fair value which do not meet the conditions for classification as hedging instruments defined pursuant to IAS 39. The Company does not hold financial assets other than derivatives for trading. Derivatives are presented in the Statement of Financial Position under "Financial derivatives". In case derivatives do not have a positive fair value at the book-closing date, the item is not presented.

Reporting entities may determine the financial assets which meet the set conditions for fair value measurement through profit and loss at their own will. The Company does not make use of this choice.

Loans and receivables

Loans and receivables represent non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are reported in their amortised value by effective interest rate method. Amortised value is calculated while taking into account the discount and bonus at acquisition, fees that are inseparable part of the effective interest rate, and transaction costs. The amortised value is reduced by a possible allowance taking into account a credit-risk loss. Yields of interest are recognised via the effective interest rate method and, besides the contractual interest, they take into consideration also amortisation of the above-mentioned discounts, bonuses, fees and transaction costs. Yields of interest are presented in the Statement of Comprehensive Income under "Financial Income". In case of receivables without an interest rate, the effective interest rate is not determined and the yield of interest is not recognised if the effect of discounting down to the present value is insignificant. Profit and loss from derecognised loans and receivable as well as impairment losses are reported into profit and loss.

3 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONT.)

As regards the Company´s financial assets, trade receivables, other receivables and financial means in banks are classified into this category. The Statement of Financial Position includes them under items of "Other long-term assets", "Trade receivables and other receivables", "Receivables from Contract on Passenger Rail Transport Services" and "Financial means and financial equivalents".

Investments held to maturity

Investments held to maturity are non-derivative financial assets with fixed or determinable payments, with fixed maturity, which the reporting entity intends and is able to hold until their maturity. After being initially recognised, investments held to maturity are measured in amortised costs. The Company does not classify any assets as investments held to maturity.

Financial assets available for sale

Available-for-sale financial assets are those non-derivative financial assets available for sale and not classified in any of the previous three categories of financial assets. After initial recognition, the financial assets available for sale are measured in their fair value, with unrealised gain or loss reported as other comprehensive income under reserve from revaluation. In case such financial asset is derecognised or its impairment is identified, cumulative profit or loss that was reported before in the last comprehensive income, is recognised in profit/loss of the accounting period. As regards assets held by the Company, this category includes ownership interests with insignificant impact presented under "Financial assets" of the Statement of Financial Position.

Impairment of financial assets

At the end of each reporting period the Company assesses whether there is any objective evidence of impairment of financial assets or a group of financial assets. Evidence of impairment may include indications about a debtor or issuer having significant financial problems, failing to pay interest or principal payments, is in a probability of a bankruptcy or financial reorganisation, or the receivable was restructured due to the debtor´s financial difficulties. If there is such objective evidence based on one or several events occurring after the asset was initially recognised, while these have negative impact on the expected future financial flows from financial assets, the financial asset is reported as impaired.

Assets measured in amortised costs

If there is objective evidence of an impairment loss, the loss amount is determined as a difference between the carrying amount of the asset and the present value of estimated future cash flows discounted by the original effective interest rate for the given financial asset. In case of receivables without an interest rate where the effective interest rate is not determined due to an insignificant discounting effect, the impairment is determined without discounting the estimated cash flows.

The carrying amount of an asset is reduced through the allowance account and the reduced amount is recognised in profit/loss under „Costs and expenses" for respective items in the Statement of Comprehensive Income. Financial assets are written off in case there is no real chance of their future payment and all securing was realised or transferred to the Company.

If in the subsequent year the amount of expected impairment increases or decreases due to an event occurring after the impairment was reported, the previously reported impairment is increased or decreased through the account of allowances. If written-off loans are payable, the repayment is reported as revenue in the Statement of Comprehensive Income.

Financial assets available for sale

From among the Company´s financial assets, the category of financial assets available for sale includes only ownership interests. For that reason, the Company applies the provisions of IAS 39, applying them to impairment of investments into equity instruments.

3 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONT.)

If there is objective evidence of impairment of an asset available for sale, the amount corresponding to the difference between its acquisition price and its current fair value is transferred from equity into profit/loss. This amount is reduced by impairment losses reported in the previous reporting periods. The reported impairment losses may not be subsequently derecognised through profit/loss and an increase in the fair value is reported via other comprehensive result in the Statement of Comprehensive Income.

h) Financial liabilities

Initial recognition and measurement

Financial liabilities are first recognised at the moment when the Company becomes a party to the contractual provisions concerning the financial instrument. At initial recognition, financial liabilities are measured at their fair value which - to the exception of financial liabilities measured at their fair value with changes reported into profit or loss - is reduced by costs directly related to the transaction. Specific information concerning the initial measurement of liabilities from loans and financial aid and trade liabilities are provided below under the chapter on financial liabilities measured at amortised costs.

Financial liabilities of the Company include trade liabilities, other liabilities, current accounts, loans, borrowings and financial derivatives.

Subsequent measurement

Subsequent measurement of financial liabilities depends on their classification into categories according to IAS 39 where the two following categories relevant for the Company are distinguished

Financial liabilities measured at fair value with changes reported as profit or loss

The financial liabilities in this category are measured at fair value with changes reported through profit and loss. The category includes two groups of financial liabilities – financial assets held for trading and financial liabilities designated to be measured at fair value through profit and loss.

Financial liabilities held for trading are the ones originated with the purpose of their short-term purchase, or are part of the portfolio of jointly managed instruments, for which there is evident trading in the recent period with a short-term profit generation. Liabilities held for trading include also derivatives with a negative fair value which do not meet the conditions of hedging instruments as defined pursuant to IAS 39. The Company does not hold financial liabilities other than derivatives for trading. Derivatives are presented in the Statement of Financial Position under "Financial derivatives". In case derivatives do not have a negative fair value at the book-closing date, the item is not presented.

Reporting entities may determine the financial liabilities which meet the set conditions for fair value measurement through profit and loss at their own will. The Company does not make use of this choice.

Financial liabilities measured at amortised costs

After their initial recognition, the Company measures the remaining liabilities at their amortised costs via the effective interest rate method. The amortised cost is calculated while taking into consideration the discount and bonus at initial recognition and transaction costs. Interest costs are recognised via the effective interest rate method and, besides the contractual interest, they take into consideration also amortisation of the above-mentioned discounts, bonuses, and transaction costs. The interest costs are presented in the Statement of Comprehensive Income under the item of "Financial costs", except for when capitalised as part of the acquisition price of qualified assets pursuant to IAS 23. The Company´s liabilities measured at amortised costs may be divided into a group of loans and financial aid and a group of trade liabilities and other liabilities.

3 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONT.)

Loans and financial aid

Loans and financial aid are initially recognised in the fair value of the received consideration after deducting the costs on obtained loan. After initial recognition they are reported in an amortised value by the effective interest rate method. They are presented in the Statement of Financial Position under the items of "Financial aids" and "Interest-bearing loans and borrowings".

Trade liabilities and other liabilities

Trade liabilities and other liabilities are reported and measured at the originally invoiced price, if the impact of their discounting on the present value is insignificant. An invoiced interest on overdue payment is reported under trade liabilities. They are presented in the Statement of Financial Position under item of "Trade liabilities and other liabilities".

i) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net value is reported in the balance sheet in case the Company has a legally enforceable right to compensate them and intends to offset them, or realise the asset and offset the liability at the same time.

j) Fair value of financial instruments

In case of investments actively tradable on organised financial markets the fair value as at balance-sheet date is determined on the basis of quoted market prices or dealer's offered price, without deducting any transaction costs.

In case of investments where quoted market price is not available, the fair value is determined by suitable measurement techniques. Such techniques include use of a recent independent market transaction, price determination on the basis of the present market value of another instrument which is the same in its nature, or the price is calculated on the basis of expected cash flows of net underlying assets of the investment or other measurement models.

k) Derivative financial instruments

The Company owns financial derivatives as a hedge against interest risks. Financial derivatives are initially measured in their fair value as at the day of contract conclusion and are subsequently re-measured into fair value. Derivatives are reported as assets if their fair value is positive and as liabilities if negative. Profit or loss from changes in the fair value of derivatives is reported directly into profit/loss for the accounting period as financial income or costs.

Deposited derivatives are separated from the fundamental contract and are treated as separate derivatives if the following conditions are met:

- their economic characteristics and risks are not closely related to the economic characteristics of the fundamental contract,
- a separate instrument under the same conditions as the deposited derivative would meet the definition of a derivative, and
- a hybrid (combined) instrument is not measured at fair value, while the changes in fair value are reported as net profit in the ordinary period.

Hedging

The Company´s portfolio does not include any hedging derivatives in compliance with the definition of IAS 39, thus, the Company does not keep hedge accounts

Classification of derivative instruments into short and long-term

Financial derivatives are classified as short-term and long-term or divided into a short-term and

3 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONT.)

long-term part pursuant to assessment of the facts and circumstances (i.e. underlying contractual cash flow).

- In case the Company owns a derivative as economic hedge (and does not apply hedge accounting) for longer than 12 months after the balance-sheet date, derivatives are classified as long-term (or divided into a short-term and long-term part), identically to the classification of the underlying item.
- Embedded derivatives which are not closely associated with the host contract are classified identically with cash flows of the host contract.
- Financial derivatives that are primarily held for trading are classified as short-term.

l) Financial means and financial equivalents

Financial means and financial equivalents consist of cash deposited in bank and in cash registers, and short-term deposits with maturity of three months or less, with only a slight risk of any change in value.

For the purposes of an overview of cash flows, the report includes the financial means and financial equivalents as defined above, after deduction of unpaid bank overdrafts.

m) Employee benefits

The Company returns a proportion of paid gross wages to the state as contributions to health and social insurance and contributions into the unemployment fund, as stipulated by statutory rates effective during the year. Costs on such contributions are included into the Profit and Loss Statement of the same period as the associated wage costs. The Company is not obliged to return contributions above the framework of statutory rates.

The Company uses also uncovered long-term schemes with fixed benefits, which include benefits in the form of single contributions in case of employment termination, a life anniversary or invalidity. Costs on provision of these employee benefits are assessed separately for each scheme via the projected unit credit method, where costs incurred on employee benefits are reported in the Profit and Loss Statement or in the equity so as to distribute them during the period of employment in the Company. The liability from employee benefits is determined as present value of forecasted future cash decreases.

The actuarial profit and loss resulting from empiric adjustments and changes in actuarial forecasts are reported as revenues and costs at the time of their occurrence. Changes and adjustments of these long-term schemes with determined benefits are reported during the average remaining period of service of the respective employees in the Profit and Loss Statement, except for cases of employee benefits after employment termination. In such case, any change and adjustment of long-term schemes of employee benefits is reported within other comprehensive profit and loss and directly in the equity.

Reserve for severance pay

Pursuant to the Slovak legislation and based on the conditions of the Collective Agreement concluded between the Company and its employees, the Company employees are entitled to severance pay immediately after termination of their employment due to organisational changes. The amount of this liability is included into the reserves on liabilities and fees, if the plan of employee number reduction is defined and announced and if conditions for its implementation are met.

n) Reserves

Reserves are reported when the Company has an actual statutory or non-contractual obligation as a consequence of a past event, settlement of which is expected to result in a probable (rather yes than no) decrease of company resources representing economic benefits, when the amount of such obligation may be reliably estimated. Reserves are re-measured as at each balance-sheet date and their amount is adjusted so as to reflect the current best estimate. The reserve amount represents the present value of expenses which take into account the existing risks and which will probably

3 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONT.))

be used to settle the liability in question. These expenses are determined via estimated risk-free interest rate as a discount rate. Where discounting is used, the carrying amount of the reserve is increased in each period in order to take into consideration reduction of discount from time perspective. This increase is reported as interest costs.

Reserve on lawsuits

Financial statements include reserves on lawsuits and potential lawsuits which were calculated through available information and assumptions of achievable outcomes of individual lawsuits, and it is probable that the outcome of such lawsuits will present a reliably measurable cost for the Company.

Reserve for costs on the environment protection

The reserve on the environment protection is created when occurrence of costs on reconstruction of the environment is probable and these costs may be reliably estimated. In general, creation of such reserves is time-wise corresponding to adoption of a formal plan or a similar obligation to sell investments or discard unused property. The amount of reported reserve is the best estimate of the necessary expenses.

o) Reporting of revenues

Revenues are reported in case it is probable that they will bring economic benefits to the Company, and when the amount of revenues may be reliably determined. Revenues are reported in the fair value of received consideration, without discounts, rebates and value added tax.

Revenues from transport and related services, as well as from other services are reported in the accounting period when the services were delivered, adjusted by discounts and deductions.

p) Lease

When determining whether a contract represents a lease or contains a lease, the substance of the contract is important, and it is necessary to assess whether fulfilment of the contract depends on use of a particular property and whether the contract transfers a right to use a property.

Lessee

The subject of financial lease, where in essence all risks and benefits resulting from ownership of the leased item are transferred to the Company, is capitalised at the beginning of the lease in the fair value of the leased property or in the present value of minimal leasing instalments, if lower. Leasing instalments are divided between financial cost and deduction of unpaid liability so that a constant interest rate is established for the remaining value of the liability.
Financial cost is reported directly in the Profit and Loss Statement.
A capitalised leased asset is depreciated for the lower of the estimated lifespan or the lease period.
Leasing instalments from operating lease are reported as costs in the Profit and Loss Statement, evenly during the lease period.

Lessor

Lease where the Company does not transfer all risks and benefits resulting from ownership of the lease item is classified as operating lease. Leasing instalments from operating lease are reported as revenues evenly during the lease period.

q) Costs on received loans and borrowings

Capitalisation of costs on received loans and borrowings starts during preparation of qualified assets for their intended use, and expenses and costs are incurred in relation to received borrowings and loans. Costs on received borrowings and loans are capitalised until the asset is prepared for its intended use. Costs on received borrowings and loans consist

3 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONT.)

of cost interests and other costs associated with foreign resources, including exchange rate differences from loans and borrowings in a foreign currency used to finance these projects in the scope, in which they are considered as adjustments of interest costs.

r) Subsidies

Subsidies are reported in their fair value if there is adequate assurance on reception of a subsidy and fulfilment of all conditions related to receiving of such subsidy. The Company reports the following subsidies:

- compensation of costs on services in the public interest based on the Contract for Passenger Rail Transport Services concluded with the Slovak Republic represented by MTC. The Company reports them in the current accounting period, in which the costs related to these services in public interest are reported. In case of compensation of costs on services in the public interest incurred in the previous periods, it is reported as revenues of the period, in which MTC decided to cover them.
- subsidies related to acquisition of long-term assets (mainly rolling stock). The Company reports State subsidies granted by the Slovak Republic separately from subsidies granted from EU funds, which are further divided by individual funds. The Company reports them in the Statement of Financial Position as deferred income and as revenues evenly during the lifespan of the acquired long-term asset.

s) Payable and deferred tax

Income tax consists of payable tax and deferred tax. Tax is reported in the comprehensive income, except for cases when it relates to items reported within other comprehensive income and loss or directly in equity. If it relates to these items, the tax is also reported within other comprehensive income and loss or directly in equity.

Payable tax

Tax receivables and liabilities for current and previous accounting periods are measured in the value, in which they are expected to be settled with the tax administrator. Payable tax is calculated pursuant to tax rates enacted as on the balance-sheet date.

In compliance with Article 46 of Act no. 595/2003 Coll. on income tax, effective as of 1 January 2015, the Company as a taxpayer has to pay a tax licence for each tax period, where it reports tax loss or tax liability calculated in the income tax return which is lower than the amount of the tax licence as stipulated for the Company.

Deferred tax

Deferred income tax is reported pursuant to a liability method with temporary differences discovered as on the balance-sheet date between the tax base of assets and liabilities and their carrying amount for the purposes of financial reporting.

Deferred tax liability is reported for all taxable temporary differences.

Deferred tax liabilities are recognised in case of all deductible temporary differences, the carry-forward of unused tax loans and unused tax losses to the extent that it is probable that future taxable profit will enable to redeem these deductible temporary differences and unused tax loans and unused tax losses that were carried forward.

Review of the carrying amount of deferred tax receivables is carried out as on each balance-sheet date and the value is reduced to such extent that it is no longer probable that the taxable profit will be enough to redeem the whole deferred tax receivable or its part. Unreported deferred tax receivables are again re-measured as on each balance-sheet date and reported in the extent that it is probable that the future taxable profit will enable retroactive return of the deferred tax receivable.

Deferred tax receivables and liabilities are measured by tax rates which are assumed to be applied in the period when the asset is realised or liability settled, based on tax rates (and tax acts) enacted as at the balance-sheet date.

4 LONG-TERM TANGIBLE ASSETS

	Acquisition price					Cumulated adjustments					Residual value as on 31 December 2016
in thousand EUR	As on 1 January 2016	Additions	Disposals	Transfers	As on 31 December 2016	As on 1 January 2016	Additions to adjustments	Disposals	Transfers	As on 31. December 2016	
Lands and buildings	**52,499**	711	10	-398	**52,802**	**9,052**	2,188	2	-82	**11,156**	**41,646**
of which: impairment loss	0				0	42	0	0	0	42	
Transport vehicles	**1,250,841**	30,518	7, 044	17,208	**1,291,523**	**397,624**	75,485	6,558	-895	**465,656**	**825,867**
Plants, equipment and other assets	**41,784**	3,051	2, 539	89	**42,385**	**20,961**	4,125	2,346	-149	**22,591**	**19,794**
of which: impairment loss	0				0	1,623	0	0	-137	1 486	
Unfinished investments	**33,523**	5,901	48	-19,250	**20,126**	**0**				**0**	**20,126**
Provided pre-payments	**0**	2,486			**2,486**	**0**				**0**	**2,486**
Total long-term tangible assets	**1,378,647**	42,667	9,641	-2,351	**1,409,322**	**427,637**	81,798	8,906	-1,126	**499,403**	**909,919**
IAS 40	**401**	4		1,087	**1,492**	**55**	1		94	**150**	**1,342**
IFRS 5	**11,117**	0	2, 081	1,263	**10,299**	**5,066**	132	2,067	1,032	**4,163**	**6,136**
of which: impairment loss						149				149	

Cumulated adjustments	Acquisition price					Cumulated adjustments					Residual value as on 31 December 2015
in thousand EUR	As on 1 January 2015	Additions	Disposals	Transfers	As on 31 December 2015	As on 1 January 2015	Additions to adjustments	Disposals	Transfers	As on 31 December 2015	
Lands and buildings	**58,051**	808	5,980	-380	**52,499**	**7,689**	2,524	1,113	-48	**9,052**	**43,447**
of which: impairment loss					0	42	0	0	0	42	
Transport vehicles	**1,069,346**	158,528	9,633	32,600	**1,250,841**	**337,620**	71,444	8,769	-2,671	**397,624**	**853,217**
Plants, equipment and other assets	**34,674**	6,272	187	1,025	**41,784**	**17,222**	3,716	123	146	**20,961**	**20,823**
of which: impairment loss					0	1,677	0	0	-54	1, 623	
Unfinished investments	**27,339**	29,275	6	-23,085	**33,523**	**0**				**0**	**33,523**
Provided pre-payments	**13,154**	0		-13,154	**0**	**0**				**0**	**0**
Total long-term tangible assets	**1,202,564**	194,883	15,806	-2,994	**1,378,647**	**362,531**	77,684	10,005	-2,573	**427,637**	**951,010**
IAS 40	**0**	0		401	**401**	**0**			55	**55**	**346**
IFRS 5	**8,527**	0	3	2,593	**11,117**	**2,498**	50		2,518	**5,066**	**6,051**
of which: impairment loss						149				149	

4 LONG-TERM TANGIBLE ASSETS (CONT.)

The category of lands and buildings includes operation and administrative buildings, customer centres, dressing rooms for train crews, depots, warehouses and track yards, together with underground services. Rolling stock in the amount of EUR 825,867 thousand represents the most significant item . Other items include IT devices, cranes, air-conditioning and heating equipment, technological equipment of depots, inventories and tools used for repairs and maintenance of rolling stock in the amount of EUR 19,794 thousand.

The most significant item of unfinished investments is represented by costs on the project documentation for light-maintenance centres in the amount of EUR 13,774 thousand, reconstruction of the locomotive depot in Poprad of EUR 216 thousand and the locomotive depot in Košice in the amount of EUR 260 thousand. In case of procurement of plants and equipment, procurement of hardware for SAP HANA in the amount of EUR 329 thousand, Almex in the amount of EUR 119 thousand are the most significant. Other items include modernisation of 361-series motive power unit amounting to EUR 2,347 thousand and passenger coaches amounting to EUR 2,285 thousand.

As on 31 December 2016 advance payments were paid for the diesel distribution and consumption system for motive power units in the amount of EUR 329 thousand and for modernisation of 361-series motive power units in the amount of EUR 2,653 thousand.

The Company carried out a comprehensive test for impairment of assets as on 31 December 2016. The test included examination of the condition and use of assets, which resulted in reporting of asset impairment in the amount of EUR 1,677 thousand as unused assets. Its recoverable amount was determined as the selling price reduced by costs related to sale of the given assets, when the usable value was determined as zero or close to zero.

Non-Current Assets Held for Sale

The assets held for sale are no longer depreciated. These assets are measured at their fair value, reduced by costs on sale. This applies to useless assets which the Company cannot use and assets offered for sale to lessees, which was recognised pursuant to IAS 40 till now. The rolling stock is primarily classified for sale, and is disposed-of only after failed attempts to be sold. The asset division is presented in the following table:

in thousand EUR		As on 31 December 2016	As on 31 December 2015
Class	**Title**		
10	Buildings	3,137	3,137
20	Constructions	838	838
30 and 40	Machines and equipment	28	28
60	Transport vehicles	111	26
70	Inventory	2	2
90	Real estate/lands	2,020	2,020
	Total	**6,136**	**6,051**

Due to fair value measurement, the assets value was reduced by EUR 149 thousand after testing the assets for impairment.

The following costs and revenues are related to the assets held for sale:

in thousand EUR	Amount
Water consumption and waste water	3
Material consumption	2
Repairs	26
Other services	12
Taxes (on lands and constructions)	42
Other charges	1
Total costs	**86**
Lease	109
Total revenues	**109**
Profit from assets held for sale	**23**

4 LONG-TERM TANGIBLE ASSETS (CONT.)

Investments into real estates

Real estates reported pursuant to IAS 40.

in thousand EUR		
Rented assets	**As on 31 December 2016**	**As on 31 December 2015**
Track yard in Bratislava	17	17
Building and premises of the locomotive depot in Bratislava	128	128
Building and premises in Fiľakovo	0	12
Track yard in Trnava	83	83
Track yard in Žilina	17	17
Building at Stromová, Košice	83	83
Land in Štrba	6	6
Track yard at the locomotive depot in Humenné	31	0
Kitchen at the locomotive depot in Košice	7	0
Stable washer in Zvolen	26	0
Indoor washer in Bratislava	944	0
Total	**1,342**	**346**

The following costs and revenues are related to assets reported pursuant to IAS 40:

in thousand EUR	**Amount**
Taxes (on lands and constructions)	6
Other costs	1
Total costs	**7**
Lease	107
Total revenues	**107**
Income from property	**100**

The manner and value of long-term assets insurance

The Company insured the significant long-term assets with the insurance company KOOPERATIVA poisťovňa, a.s., Vienna Insurance Group, and Allianz – Slovenská poisťovňa a.s. based on the insurance contracts:

Insurance policy no. 80 8017630, including Supplement no. 1, concerning insurance of fuelling station and insurance of inventories, has been concluded for the period from 1 January 2014 to 31 December 2018. The total insured value for the insurance period amounts to EUR 4,733 thousand.

Fleet insurance policy no. 7710038749 concerning insurance of trucks and trailers - KASKO (accident insurance of service CMV) has been concluded for the period from 1 January 2015 to 31 December 2016. The total insured value for the insurance period amounts to EUR 825 thousand.

5 LONG-TERM INTANGIBLE ASSETS

	Acquisition price					Cumulated adjustments					Residual value as on 31 December 2016
in thousand EUR	As on 1 January 2016	Additions	Disposals	Transfers	As on 31 December 2016	As on 1 January 2016	Additions to adjustments	Disposals	Transfers	As on 31 December 2016	
Intangible assets	**27,758**	245		399	**28,402**	**18,066**	3,408			**21,474**	**6,928**
Unfinished investments	**1,322**	1,375		-399	**2,298**	**0**				**0**	**2,298**
Provided pre-payments	**0**				**0**	**0**				**0**	**0**
Total	**29,080**	1,620		0	**30,700**	**18,066**	**3,408**			**21,474**	**9,226**

	Acquisition price					Cumulated adjustments					Residual value as on 31 December 2015
in thousand EUR	As on 1 January 2015	Additions	Disposals	Transfers	As on 31 December 2015	As on 1 January 2015	Additions to adjustments	Disposals	Transfers	As on 31 December 2015	
Intangible assets	**23,240**	1,933		2,585	**27,758**	**14,912**	3,154			**18,066**	**9,692**
Unfinished investments	**2,585**	1,322		-2,585	**1,322**	**0**				**0**	**1,322**
Provided pre-payments	**0**				**0**	**0**				**0**	**0**
Total	**25,825**	3,255		0	**29,080**	**14,912**	**3,154**			**18,066**	**11,014**

The most important item in the category of intangible assets were licences for SW iKVC in the amount of EUR 1,649 thousand and Oracle support licences in the amount of EUR 909 thousand, as well as the Fuelling and Diesel Consumption Control System in the amount of EUR 821 thousand.

The most significant items under unfinished investments include acquisition of KVC software in the amount of EUR 1,723 thousand.

6 FINANCIAL ASSETS

The Company holds an ownership interest with insignificant influence in the following companies:

in thousand EUR	Number of shares (pieces)	Participation in the equities in %	Financial assets	
			as on 31 December 2016	As on 31 December 2015
Eurofima	1,300	0.50 %	5,675	5,625
BCC	1	0.68 %	1	1
Total	**x**	**x**	**5,676**	**5,626**

7 OTHER LONG-TERM ASSETS

in thousand EUR	31 December 2016	31 December 2015
Trade receivables	576	510
Other long-term receivables	229	9
Total	**805**	**519**

8 INVENTORIES

in thousand EUR	Acquisition price	(The lower of), acquisition value, or net recoverable value	Acquisition price	(The lower of) acquisition value, or net recoverable value
	2016	**2016**	**2015**	**2015**
Total material	10,764	9,567	9,224	7,988
Fuel in tank	279	279	256	256
Other inventories	299	244	292	237
Total inventories	**11,342**	**10,090**	**9,772**	**8,481**

No right of lien was established regarding the procured inventories.

9 TRADE RECEIVABLES AND OTHER RECEIVABLES

in thousand EUR	31 December 2016	31 December 2015
Short-term trade receivables	12,114	14,069
Tax receivable (excessive VAT deduction, excise tax)	10,225	14,509
Receivables from subsidies granted on investments (EU funds)	0	2,705
Other receivables	4,447	1,818
	26,786	33,101
Allowances to trade receivables and other receivables	-1,345	-1,208
	25,441	**31,893**

Receivables after maturity date amounted to EUR 2,254 thousand as on 31 December 2016 (EUR 2,014 thousand as on 31 December 2015).
Trade receivables are interest-free and in general payable within 14 – 90 days.
Information on receivables from related parties are stated under note 33.

Analysis of receivables pursuant to maturity as on 31 December 2016 is as follows:

Year	Total	Within maturity and without an adjusting entry	After maturity and without an adjusting entry			
			< 180 days	181 - 270 days	271 - 365 days	> 365 days
2016	**26,786**	24,532	1,002	38	102	1,112
2015	**33,101**	31,087	800	12	28	1,174

10 FINANCIAL MEANS AND FINANCIAL EQUIVALENTS

For the purposes of a cash flow overview, the financial means and financial equivalents contain the following items:

in thousand EUR	31 December 2016	31 December 2015
Financial means in cash register and financial equivalents	216	249
Financial means in banks	723	589
Total	**939**	**838**

Financial means in banks bear interest pursuant to variable interest rates depending on daily deposit rates.

Bank overdrafts form an indivisible part of cash flow management and are reported as short-term interest-bearing loans and borrowings.

10 FINANCIAL MEANS AND FINANCIAL EQUIVALENTS (CONT.)

Bank overdrafts as on 31 December are as follows:

in thousand EUR	31 December 2016	31 December 2015
	Principal balance	Principal balance
Československá obchodná banka, a.s.	2,671	8,062
Tatra banka, a.s.	30,233	801
UniCredit Bank Czech Republic and Slovakia a.s.	18,650	24,146
Všeobecná úverová banka, a.s.	529	9,797
Slovenská sporiteľňa, a.s.	0	662
Total	**52,083**	**43,468**

11 SHAREHOLDERS' EQUITY

Share capital

Share capital is formed by a state investment in the Company administered by MTC as a deposit of certain assets and liabilities of the predecessor company, Železničná spoločnosť, containing 64 pieces of registered ordinary shares in the nominal value of one share of EUR 3,319,392. All these shares were issued and paid in full.

Statutory reserve fund

When the Company was founded, a statutory reserve fund in the amount of 10 % of the share capital of the Company was established in the form of a non-monetary investment and pursuant to the Slovak legislation. Pursuant to the Slovak legislation, the statutory reserve fund has to increase at least by 10 % of the annual net profit up to 20 % of the share capital of the Company. Pursuant to the Company Statutes, it is not possible to divide the statutory reserve fund, which may be used only to cover losses or to increase the share capital.

Other funds

Other funds represent the difference between the value of assets and liabilities deposited by the State when the Company was founded and by an additional investment in October 2005, and the share capital and statutory reserve fund. In 2013, retrospectively as on 1 January 2012 and due to application of an amendment to IAS 19, the other funds were adjusted by a liability of the Company from long-term schemes of employee benefits, recognised and reported into the equity. The amount of the Company´s liability from long-term schemes of employee benefits pursuant to IAS 19 as on 31 December 2016 which were reported into the equity is EUR 799 thousand (EUR 273 thousand as on 31 December 2015).

Settlement of loss from the previous accounting period

Settlement of loss in the amount of EUR 5,889 thousand for the accounting period of 2015 was adopted by the General Assembly, which decided on 27 May 2016 to settle the loss by transferring the amount to account 429 – Unpaid loss of previous years.

Detailed figures on shareholders´ equity are provided in the Statement of Changes in the Equity.

12 FINANCIAL AID

EUROFIMA was established by fourteen countries by the „EUROFIMA Treaty" in 1955 to support purchase of standardised rolling stock fleet for member railways. Each contract means a separate purchase of rolling stock. The rolling stock is also pledged as conditional securing which ceases to exist by full settlement of the financial aid. The Slovak Republic indirectly undertook to repay the financial aid to EUROFIMA in compliance with the "EUROFIMA Treaty" ratified by the Slovak Government.

As on 31 December 2016:

in thousand EUR	Currency	Amount	Maturity	Hedging
Eurofima VII.B (Contract no. 2694)	EUR	8,600	03. 04. 2017	rolling stock
Eurofima VIII.A (Contract no. 2718)	EUR	14,000	03. 04. 2017	rolling stock
Eurofima VIII.B (Contract no. 2731)	EUR	13,000	29. 09. 2020	rolling stock
Eurofima IX. A (Contract no. 2753)	EUR	11,106	29. 09. 2020	rolling stock
Total		**46,706**		
Short-term part		**22,600**		
Long-term part		**24,106**		

As on 31 December 2015:

in thousand EUR	Currency	Amount	Maturity	Hedging
Eurofima VII.A (Contract no. 2670)	EUR	8,000	07. 04. 2016	rolling stock
Eurofima VII.B (Contract no. 2694)	EUR	8,600	03. 04. 2017	rolling stock
Eurofima VIII.A (Contract no. 2718)	EUR	14,000	03. 04. 2017	rolling stock
Eurofima VIII.B (Contract no. 2731)	EUR	13,000	29. 09. 2020	rolling stock
Eurofima IX. A (Contract no. 2753)	EUR	11,106	29. 09. 2020	rolling stock
Total		**54,706**		
Short-term part		**8,000**		
Long-term part		**46,706**		

All financial aid bears interest at variable interest rate in the scope from -0.313 % p.a. to 0.362 % (from -0.133 % p.a. to 0.579 % p.a. in 2015).

13 INTEREST-BEARING LOANS AND BORROWINGS

As on 31 December 2016:

	Currency	Amount in foreign currency	Principal balance in thousand EUR	Maturity	Hedging
Long-term loans					
Tatra banka, a.s.	EUR		4,454	31. 12. 2018	No hedging
Tatra banka, a.s.	EUR		44,072	31. 12. 2023	No hedging
ČSOB, a.s.	EUR		13,509	31. 12. 2018	No hedging
ČSOB, a.s.	EUR		30,000	23. 12. 2024	No hedging
ČSOB, a.s.	EUR		30,000	18. 03. 2025	No hedging
ING Bank, N.V.	EUR		0	30. 06. 2016	No hedging
Komerční banka, a.s.	EUR		0	30. 06. 2016	No hedging
Komerční banka, a.s.	EUR		8,000	13. 07. 2022	No hedging
SLSP, a.s.	EUR		45,244	17. 12. 2021	No hedging
SLSP, a.s.	EUR		10,000	16. 06. 2017	No hedging
SLSP, a.s.	EUR		22,578	30. 06. 2022	No hedging
VUB, a.s.	EUR		30,000	24. 03. 2020	No hedging
Total long-term loans			**237,857**		
Short-term part of loans and borrowings			**30,367**		
Long-term part of loans and borrowings			**207,490**		

	Currency	Amount in foreign currency	Principal balance in thousand EUR	Maturity	Hedging
Short-term loans					
Tatra banka, a.s.	EUR		5,000	30. 09. 2017	No hedging
Total short-term loans			**5,000**		
Short-term part of loans and borrowings (see above)			**30,367**		
Bank overdrafts (note 10)			**52,083**		
Total short-term loans and borrowings			**87,450**		

Some loan contracts include also an obligation of the Company to fulfil certain financial and non-financial indicators. These indicators are derived from the management accounts prepared by the Company.
The fair value of interest-bearing loans and borrowings amounts to EUR 294,940 thousand (EUR 257,086 thousand as on 31 December 2015).

All interest-bearing loans and borrowings bear interest at variable interest rate in the scope from 0.380 % p.a. to 2.350 % p.a. (from 0,254% p.a. to 2,429% p. a. in 2015).

13 INTEREST-BEARING LOANS AND BORROWINGS (CONT.)

As on 31 December 2015:

	Currency	Amount in foreign currency	Principal balance in thousand EUR	Maturity	Hedging
Long-term loans					
Tatra banka, a.s.	EUR		6,681	31. 12. 2018	No hedging
ČSOB, a.s.	EUR		21,433	31. 12. 2018	No hedging
ČSOB, a.s.	EUR		30,000	23. 12. 2024	No hedging
ČSOB, a.s.	EUR		30,000	18. 03. 2025	No hedging
ING Bank, N.V.	EUR		3,143	30. 06. 2016	No hedging
Komerční banka, a.s.	EUR		4,594	30. 06. 2016	No hedging
SLSP, a.s.	EUR		45,244	17. 12. 2021	No hedging
SLSP, a.s.	EUR		10,000	16. 06. 2017	No hedging
SLSP, a.s.	EUR		25,523	30. 06. 2022	No hedging
VUB, a.s.	EUR		30,000	24. 03. 2020	No hedging
Total long-term loans			**206,618**		
Short-term part of loans and borrowings			**21,815**		
Long-term part of loans and borrowings			**184,803**		

	Currency	Amount in foreign currency	Principal balance in thousand EUR	Maturity	Hedging
Short-term loans					
Tatra banka, a.s.	EUR		7,000	30. 09. 2016	No hedging
Total short-term loans			**7,000**		
Short-term part of loans and borrowings (see above)			**21,815**		
Bank overdrafts (note 10)			**43, 468**		
Total short-term loans and borrowings			**72, 283**		

14 EMPLOYEE BENEFITS

in thousand EUR	Bonuses at retirement	Contributions at life anniversaries	Compensatory contribution in case of invalidity	Total
As on 1 January 2016	**8,766**	**2,280**	**473**	**11,519**
Costs on present services	300	85	0	385
Interest costs	210	54	11	275
Actuarial profit and loss	580	144	28	752
Paid benefits	-705	-236	-76	-1,017
Costs on past services	313	-6	27	334
As on 31 December 2016	**9,464**	**2,321**	**463**	**12,248**
Short-term as on 31 December 2016	629	227	68	924
Long-term as on 31 December 2016	8,835	2,094	395	11,324
As on 31 December 2016	**9,464**	**2,321**	**463**	**12,248**

in thousand EUR	Bonuses at retirement	Contributions at life anniversaries	Compensatory contribution in case of invalidity	Total
As on 1 January 2015	**8,750**	**2,168**	**346**	**11,264**
Costs on present services	296	80	0	376
Interest costs	210	52	8	270
Actuarial profit and loss	168	46	76	290
Paid benefits	-658	-205	-93	-956
Costs on past services	0	139	136	275
As on 31 December 2015	**8,766**	**2,280**	**473**	**11,519**
Short-term as on 31 December 2015	425	252	79	756
Long-term as on 31 December 2015	8,341	2,028	394	10,763
As on 31 December 2015	**8,766**	**2,280**	**473**	**11,519**

Re-valuation of employee benefits

in thousand EUR	as on 31 December 2016	as on 31 December 2015
Bonuses at retirement	-580	-168
Severance payment	-402	-182
Total	**-982**	**-350**
Deferred tax	183	77
Total	**-799**	**-273**

14 EMPLOYEE BENEFITS (CONT.)

Main actuarial assumption:

	2016	2015
Discount rate (% p.a.)	1.50 %	2.40 %
Increase of wages (%)	2.5 % – 3.22 %	2.00 %
Probability of male mortality (%)	0.038 % – 2.26 %	0.038 % – 2.26 %
Probability of female mortality (%)	0.0181 % – 0.8784 %	0.0181 % – 0.8784 %

Long-term reserve for employee benefits

As on 31 December 2016, the Company reports a liability in the amount of EUR 12,248 thousand (of which: short-term liability part amounting to EUR 924 thousand and long-term liability part amounting to EUR 11,324 thousand) to cover the estimated liabilities related to remuneration at retirement or disability pension, remuneration at life anniversaries and compensatory bonus due to reduced ability to work of an employee.
In compliance with the effective Collective Agreement for 2017-2019, Železničná spoločnosť Slovensko, a.s. grants the following types of bonuses to its employees upon fulfilment of determined conditions:
The employer grants a bonus in case of the first termination of the employment due to retirement, premature retirement or invalidity retirement if :

- **in case of retirement, premature retirement or invalidity retirement** - the employee worked for the employer for at least 10 years continuously as on the day of employment termination; the employment was not terminated due to violated working discipline; the employee is not entitled to severance pay under the Collective Agreement;
  in the amount depending on the years worked for the employer, EUR 83 per each worked year,
- **in case of retirement or premature retirement** - the employee worked for the employer for at least 10 years continuously as on the day of employment termination; the employment was not terminated due to violated working discipline; the employee is entitled to severance pay under the Collective Agreement;
  in the amount depending on the years worked for the employer, EUR 7.50 per each worked year,
- **in case of retirement** - the employee worked for the employer for at least 10 years continuously as on the day of employment termination; the employment was not terminated due to violated working discipline; the employee is entitled to severance pay;
  in the amount depending on the years worked for the employer, EUR 11 per each worked year.

For the purpose of calculating the bonus amount, the years worked in employment for the employer are added together. The bonus is granted as a single payment.

As acknowledgement and appraisal of many-year work, the employer grants a bonus to the employee if the condition of a continuous employment over 10 years for the employer is met on the life anniversary of 50 years of age. The bonus amount is calculated pursuant to the length of employment as follows:

- in the amount of EUR 165 (for over 10 to 15 years),
- in the amount of EUR 235 (for over 15 to 20 years),
- in the amount of EUR 330 (for over 20 to 25 years),
- in the amount of EUR 500 (for over 25 years).

At life anniversary of **60 years of age** of an employee, the employer grants a single bonus in the amount of EUR 500 if the condition of a continuous employment over 25 years is met on the life anniversary date. The bonus is granted as a single payment.

14 EMPLOYEE BENEFITS (CONT.)

In compliance with Article 76a of the Labour Code, Železničná spoločnosť Slovensko, a.s. grants a severance pay in the amount of the employee´s average monthly wage in case of the employee´s first employment termination due to retirement, premature retirement or invalidity retirement with reduced ability to work of more than 70%. The employer grants severance pay to the employee if he or she requests the retirement pension before termination of employment or within 10 days after employment termination.

As on the day of book closing, Železničná spoločnosť Slovensko, a.s. has no plan to optimise the employee number.

Wage increase: In 2017 the Company shall ensure increasing of the average wage by 3.22 % compared to the actual average wage without overtime work in 2016, while the parties to the agreement shall discuss wage increase in the following years at the latest from 1 November of the respective calendar year.

Mortality rate: Mortality table for the Slovak Republic for 2008-2012.

The calculated liabilities include costs on health and social insurance incurred on the basis of the amendments to Acts no. 461/2003 Coll. and no. 580/2004 Coll. effective as of 1 January 2014.

Description of risks

The Company does not hold any assets that would serve to cover the liability. The Company thus avoids the risk from investing the financial means, on the other hand, however, no assets serving to cover the liabilities are valorised.

Sensitivity of the level of "POST EMPLOYMENT BENEFITS" to change in pre-conditions

1. Change of discount by +100bps for all years to come, assuming that other pre-conditions entering the calculation remain unchanged, results in decrease of the liability by 8.78 %.
2. Change of wage increase by +100bps for all years to come, assuming that other pre-conditions entering the calculation remain unchanged, results in increase of the liability by 2.87 %.
3. Fluctuation reduced by 10% for all years to come, assuming that other pre-conditions entering the calculation remain unchanged, results in increase of the liability by 1.54 %.
4. Assumed mortality rate reduced by 10% for all years to come, assuming that other pre-conditions entering the calculation remain unchanged, results in increase of the liability by 0.96 %.

The average maturity of employee benefits during employment is 7.20 years, while the average maturity of employee benefits after employment termination is 9.56 years.

The actuarial profit and loss, changes of financial assumptions are caused by reduced discount from 2.4 % to 1.6 %..

The costs on past service are caused by

- an increase of the severance payment for employees who reached pension age but have not retired yet
- a change of the retirement age (Measure no. 269/2016 Coll.)
- amendment to Act on social insurance no. 461/2003 Coll. increasing the maximum assessment base for social insurance levies

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15 RESERVES

in thousand EUR	Environ-mental burdens	Lawsuits	Redun-dancy payment, severance payment	Other reserves	Total
As on 1 January 2016	**568**	**17,059**	**3,314**	**612**	**21,553**
Additions	0	53	92	325	470
Interest costs	0	0	80	0	80
Recognised part of the subsidy	0	0	0	-235	-235
Actuarial profit and loss	0	0	402	0	402
Use	-163	0	-241	0	-404
As on 31 December 2016	**405**	**17,112**	**3,647**	**702**	**21,866**
Short-term as on 31 December 2016	81	16,918	223	702	17,924
Long-term as on 31 December 2016	324	194	3,424	0	3,942
As on 31 December 2016	**405**	**17,112**	**3,647**	**702**	**21,866**

in thousand EUR	Environ-mental burdens	Lawsuits	Redun-dancy payment, severance payment	Other reserves	Total
As on 1 January 2015	**7,244**	**23,568**	**3,158**	**15**	**33,985**
Additions	0	31	113	2	146
Interest costs	0	0	76	0	76
Recognised part of the subsidy	-6,469	-6,540	0	0	-13,009
Actuarial profit and loss	0	0	182	0	182
Use	-207	0	-215	595	173
As on 31 December 2015	**568**	**17,059**	**3,314**	**612**	**21,553**
Short-term as on 31 December 2015	474	16,914	203	612	18,203
Long-term as on 31 December 2015	94	145	3,111	0	3,350
As on 31 December 2015	**568**	**17,059**	**3,314**	**612**	**21,553**

Lawsuits

Reserves on lawsuits concern several legal claims. The most significant reserve as on 31 December 2016 in the amount of EUR 16.7 million concerned the unsure result of a passive commercial lawsuit against the complainant, LANCILLON LIMITED, in the matter of compensation for lost profit due to failed rolling stock reconstruction. The Company continues to report the difference in the total amount of the claimed compensation as a contingent liability.

Environmental burdens

The Company holds long-term tangible assets, for which reserves on environmental burdens were created in the past reporting periods in compliance with IAS 37. As on 31 December 2016, the reserve amount was assessed as EUR 405 thousand based on the remaining obligations of ecological nature resulting for the Company from the effective Slovak legislation.

16 CONTINGENT ASSETS LIABILITIES

a) Contingent assets

The District Court of Martin holds legal proceedings of the complainant ZSSK against the defendant ŽOS Vrútky a.s. The subject of the lawsuit concerns the claim of ZSSK for payment of a contractual fine in the amount of EUR 2,364 thousand with accessories as a consequence of a breach of the Purchase Contract no. 18/VS-N/2008 on delivery of multiple-unit sets. Multiple-unit sets were not delivered pursuant to the time schedule, where the defendant ŽOS Vrútky a.s. was delayed with contractual performance against the agreed deadlines in case of each multiple-unit set. ZSSK thus claims the contractual fine against ŽOS Vrútky a.s.
Another lawsuit also concerns a claim of contractual fine in the amount of EUR 171 thousand with interests, which the complainant derives as a consequence of a breach of Contract on work no. 44/VS-N/2009 on reconstruction of 15 motive power units of 162/163 series to vehicles of 361 series in terms of the time schedule and its amendments based on Supplement no. 1 and Supplement no. 2 to the Contract (hereinafter the Contract).

Based on a legal opinion, the conclusion of the lawsuits should be positive for ZSSK.

b) Contingent liabilities

A lawsuit was filed with the District Court of Bratislava III against the Company concerning damages in the amount of EUR 51,752 thousand with accessories. The complainant, LANCILLON Limited (legal predecessor: Martinská mechatronická a.s.) justifies its claim by a breach of obligations resulting from the "Contract on construction of a prototype of a 755-series locomotive" of 6 November 1995 as amended by Supplements no. 1 and 2, "Contract on testing of a prototype of a 755-series locomotive" of November 1997 and "Contract on work no. 1/98-755 on construction of two prototypes of a 755-series locomotive in a testing series" of August 1998. The complainant based the right to damages on the alleged frustrated prototype tests and a consequent failure to fulfil an alleged obligation to purchase 98 pieces of serially produced locomotives of 755 series from the complainant.

Based on a legal analysis, the Company management assumes that the complaint is unjustified because the supplier (complainant) did not meet the contractual obligations resulting from individual contracts.

17 FINANCIAL DERIVATIVES – LONG-TERM LIABILITIES

As at the day of book closing, the financial derivatives were measured by an external company pursuant to the principle of determining the present value of all financial flows from the given instrument. Discount factors are calculated from the actual market data obtained from the Bloomberg information system. Expected cash flows were determined either by using calculation of forward interest rates or by stochastic simulation of market variables.

		Measurement as on 31 December 2016		Measurement results	
Creditor	**Derivative**	**Receivable**	**Liability**	**Receivable**	**Liability**
NOMURA	EUROFIMA IRIS	0	18,791	0	18,791
Total		**0**	**18,791**	**0**	**18,791**

The measurement result as on 31 December 2016 in the amount of EUR 18,790 represents the long-term part of the financial derivatives.

		Measurement as on 31 December 2015		Measurement results	
Creditor	**Derivative**	**Receivable**	**Liability**	**Receivable**	**Liability**
NOMURA	EUROFIMA IRIS	-512	23,870	0	23,358
Total		**-512**	**23,870**	**0**	**23,358**

The measurement result as on 31 December 2015 in the amount of EUR 23,358 represents the long-term part of the financial derivatives.

18 OTHER LONG-TERM LIABILITIES

in thousand EUR	31 December 2016	31 December 2015
Deferred income in relation to investments from EU Structural Funds	56,701	61,428
Deferred income in relation to investments from the State Budget	12,666	16,170
Deferred income in relation to investments from the EU Cohesion Fund	219,841	233,699
Deferred income in relation to investments in combination of the State Budget and EU Structural Funds	56,701	61,428
Deferred income in relation to investments in combination of the State Budget and EU Cohesion Fund	38,795	41,241
Deferred income in relation to investments from the EU grant	1,534	0
Liabilities towards the social fund	82	55
Other liabilities	585	0
Total	**386,905**	**414,021**

Changes in the social fund are presented in the following table:

in thousand EUR	2016	2015
as on 1 January	**55**	**84**
Creation	661	636
Drawing	634	665
As on 31 December	**82**	**55**

19 TRADE LIABILITIES AND OTHER LIABILITIES

in thousand EUR	31 December 2016	31 December 2015
Trade liabilities and other liabilities	49,842	61,541
Short-term part of deferred income in relation to investments	30,199	28,529
Tax liabilities	731	661
Total	**80,772**	**90,731**

Short-term trade liabilities after maturity (account 321) amounted to EUR 261 thousand as on 31 December 2016 (EUR 96 thousand as on 31 December 2015).

More detailed information on liabilities towards related parties is stated under note 33.

20 INCOME TAX

Income tax consists of payable tax and deferred tax. In 2016 the Company´s tax base amounted to – a loss of EUR -45,800 thousand. In 2015, after an additional income tax return, the adjusted tax base amounted to a loss of EUR -11,609 thousand.
The economic result before taxation is a loss of EUR -6,076 adjusted by recognised deferred and payable tax.
When calculating the deferred income tax, the amendment to Income Tax Act effective as of 1 January 2017 was taken into consideration.

in thousand EUR	2016	2015
Tax due (deductible and licence tax)	3	4
Deferred tax	-927	-1527
Total	**-924**	**-1523**

in thousand EUR	31 December 2016	31 December 2015
Economic result before taxation pursuant to IAS/IFRS	**-6,076**	**-7,412**
Theoretical tax at statutory tax rate of 22%	-1,337	-1,631
Impact of tax loss that cannot be redeemed in the future	0	0
Constant extra charges and deductible revenues	413	108
Income tax (payable and deferred tax)	**-924**	**-1,523**

20 INCOME TAX (CONT.)

Deferred tax receivables and liabilities may be divided as follows:

in thousand EUR	31 December 2016	31. December 2015
Deferred tax receivables		
Unamortised tax loss	-1,828	-2,293
Employee benefits reported in the comprehensive income	-2,437	-2,457
Employee benefits reported in the equity	-183	-77
Redundancy payment, severance payment	-780	-854
Investment subsidies	-7,140	-4,900
Other	-1,249	-1,170
Net tax receivables	**-13,617**	**-11,751**
Deferred tax liabilities Long-term tangible assets	21,843	21,010
Net deferred tax liabilities	**8,226**	**9,259**

Pursuant to the amendment to the Income Tax Act effective as of 1 January 2014, the Company is entitled to amortise the loss from 2015 evenly **during four** consecutive tax periods starting with the tax period of 2016 and of 2019 at the latest. The loss would be carried forward as follows

in thousand EUR	31 December 2016	31. December 2015
2015	-	5,173
2016	-	5,173
2017	2,903	5,172
2018	2,902	-
2019	2,902	-
Total tax loss carried forward	**8,707**	**15,518**

21 TRANSPORT OF PASSENGERS AND RELATED REVENUES

in thousand EUR	31 December 2016	31 December 2015
Passenger transport		
Passenger transport - national	48,849	49,559
Passenger transport - international	18,836	18,945
	67,685	**68,504**
Other transport-related revenues:		
Performance of passenger coaches	9,782	8,829
Traction performance abroad	8,381	7,492
Other revenues	4,787	5,178
	22,950	**21,499**
Total	**90,635**	**90,003**

When applying tariffs in national services, the Company follows the effective decrees of the Transport Authority on fare regulation in railway transport which stipulate the scope and maximum amount of selected types of fare.

If the tariffs are not regulated by a decree of the Transport Authority or any other effective regulation or a decision of the contracting authority, the Company can transport passengers also for a lower fare. In such case the Company is responsible for preparation of the amount and structure of tariffs and informs MTC about provided discounts, together with justification and expected income as these tariffs are subject to approval of the contracting authority. The Company has to discuss any discounted price with the contracting authority, usually 2 weeks before such price reduction is effective. The contracting authority can oblige the transport operator to change or maintain the amount and structure of tariffs. Reduced prices may not violate the rules of competition.
Within its national services and in compliance with Government Resolution no. 530/2014 and Government Resolution no. 590/2014, the Company offers free-of-charge transport in the 2nd class for children until their completed 15th year of age, pupils and full-time students until their completed 26th year of age, as well as free-of-charge transport of persons older than 62 years of age and all pensioners pursuant to Act no. 461/2003 Coll. on social insurance as amended, as well as for people entitled to a similar right to pension payment acknowledged by a public institution of an EU Member State, and free-of-charge transport of beneficiaries of window´s pensions for years of service, widower´s pensions for years of service, orphan´s pensions for years of service, and disability pensions pursuant to Act no. 328/2002 Coll. on social insurance of policemen and soldiers, changing and modifying certain act, as amended.

22 COMPENSATION FOR SERVICES IN THE PUBLIC INTEREST

The Company has concluded a Contract on Passenger Rail Transport Services with the Slovak Republic represented by MTC which is the basis for operation of passenger transport by rail. In 2016 compensation in the form of prepayments amounting to EUR 209,559 thousand was granted for its operation.
Based on the Protocol assessing the fulfilment of the Contract on Passenger Rail Transport Services in 2015 of 1 July 2016, MTC recognised a receivable from loss compensation of 2015, payable on 31 December 2017, which is reported in the revenues of 2016 in the amount of EUR 28,751 thousand.
The liability of MTC towards the Company incurred in relation to fulfilment of the Contract on Passenger Rail Transport Services totals EUR 44,367 thousand (EUR 15,620 thousand for 2014, EUR 28,747 thousand for 2015).

in thousand EUR	31 December 2016	31 December 2015
Compensation for services in the public interest	209,559	209,559
Income from additional compensation	28,751	16,547
Total	**238,310**	**226,106**

23 INCOME FROM SUBSIDIES

in thousand EUR	31 December 2016	31 December 2015
Income from investment subsidies:		
from the State Budget	**3,949**	**3,927**
from the State Budget in combination with EU funds	**4,728**	**4,815**
from Structural Funds	**4,728**	**4,815**
from the State Budget in combination with the EU Cohesion Fund	**2,717**	**2,779**
from the EU Cohesion Fund	**15,401**	**15,753**
from CEF grant	**0**	**0**
Income from non-investment subsidies	**303**	**197**
Total	**31,826**	**32,286**

23 INCOME FROM SUBSIDIES (CONT.)

State Budget subsidies

In 2016 the Company was not granted any capital transfers for investment purposes. Revenues include subsidies of previous periods (EUR 11,618 thousand in 2010 and EUR 33,194 thousand in 2009) which were designated and used to reconstruct diesel coaches 810+010 and multiple-unit sets 813+913, modernisation of Bdt and Bdgteer coaches and motive power units of 362 and 363 series.

in thousand EUR	Subsidy received in 2009	Subsidy received in 2010	Total
As on 1 January 2016	**14,073**	**6,024**	**20,097**
Recognised part of the subsidy	-2,967	-982	-3,949
As on 31 December 2016	**11,106**	**5,042**	**16,148**
Short-term as on 31 December 2016	2,499	983	3,482
Long-term as on 31 December 2016	8,607	4,059	12,666
As on 31 December 2016	**11,106**	**5,042**	**16,148**

in thousand EUR	Subsidy received in 2009	Subsidy received in 2010	Total
As on 1 January 2015	**17,018**	**7,006**	**24,024**
Recognised part of the subsidy	-2,945	-982	-3,927
As on 31 December 2015	**14,073**	**6,024**	**20,097**
Short-term as on 31 December 2015	2,945	983	3,928
Long-term as on 31 December 2015	11,128	5,041	16,169
As on 31 December 2015	**14,073**	**6,024**	**20,097**

23 INCOME FROM SUBSIDIES (CONT.)

Subsidy from the State Budget in combination with a subsidy from Structural Funds of the European Union

List of projects

Abbreviation	Project title
EFD1	Procurement of electric double-deck units (EDU), diesel motor units (DMU) and Push-Pull diesel units (PP)
EFD2	Procurement of electric units (ED2), diesel motor units (DMU2)
EFD2A	Procurement of ETCS (European Train Control System) for EDU
EFD2B	Procurement of project preparation for technical and hygienic maintenance of rolling stock
EFD2C	Procurement of the integrated transport information system - IDIS
EFD2D	Procurement of new passenger coaches and modernisation of passenger coaches
EFD2E	Procurement of new passenger coaches and modernisation of motive power units of 750 series up to 757 series
EFD2F	Modernisation of motive power units of 361 series and passenger coaches - refunding
EFD2G	Procurement of interoperable communication equipment to increase safety of regional railway transport
EFD2H	Modernisation of motive power units of 163 series and passenger coaches
EFD2I	Procurement of project preparation for technical and hygienic maintenance of rolling stock – phase II
EFD2J	Modernisation of motive power units of 813+913 series and multiple-unit sets 012 - refunding
EFTAP TSI	Project of implementation of technical interoperability for TAP TSI by ZSSK

Project EFD1: Under the Operational Programme Transport focusing on renewal of the rolling stock fleet for suburban and inter-regional railway public passenger transport in Slovakia, the Company started to draw a non-repayable financial contribution in 2009. According to the Contract on provision of a non-repayable financial contribution the amount of eligible costs under the Operational Programme Transport was determined as EUR 186,338 thousand, and the maximum level of financing of the non-repayable financial contribution to EUR 177,021 thousand. The funding of the non-repayable financial contribution is divided evenly; 50 % from the State Budget of the Slovak Republic, and 50 % from the European Regional Development Fund.
In December 2010 the first electric double-deck unit procured under the Operational Programme Transport was put into operation. Parts of the subsidy from the non-repayable financial contributions are gradually recognised as of January 2011.

In October 2015 the Managing Authority (MTCRD) defined a financial adjustment - a correction of the project in question in the amount of 10%, which represents amount of EUR 7,338 thousand.

in thousand EUR	Subsidy from the EU Structural Funds	Subsidy from the State Budget in combination with EU	Total
As on 1 January 2016	**66,144**	**66,144**	**132,288**
Recognised part of the subsidy	-4,728	-4,728	-9,456
As on 31 December 2016	**61,416**	**61,416**	**122,832**
Short-term as on 31 December 2016	4,715	4,715	9,430
Long-term as on 31 December 2016	56,701	56,701	113,402
As on 31 December 2016	**61,416**	**61,416**	**122,832**

23 INCOME FROM SUBSIDIES (CONT.)

in thousand EUR	Subsidy from the EU Structural Funds	Subsidy from the State Budget in combination with EU	Total
As on 1 January 2015	**74,628**	**74,628**	**149,256**
Drawing	-3,669	-3,669	-7,338
Recognised part of the subsidy	-4,815	-4,815	-9,630
As on 31 December 2015	**66,144**	**66,144**	**132,288**
Short-term as on 31 December 2015	4,716	4,716	9,432
Long-term as on 31 December 2015	61,428	61,428	122,856
As on 31 December 2015	**66,144**	**66,144**	**132,288**

Project EFD2: During 2013 the Contract on provision of a non-repayable financial contribution under the Operational Programme Transport was concluded, focusing on procurement of rolling stock for suburban and regional public passenger services by rail within ITS. The maximum amount of eligible costs was contractually determined as EUR 179,113 thousand, while the maximum amount of financing of the non-repayable financial contribution as EUR 169,968 thousand. The funding of the non-repayable financial contribution is divided between the Cohesion Fund in 85% and the State Budget of the Slovak Republic in 15%.

in thousand EUR	Subsidy from the Cohesion Fund	Subsidy from the State Budget in combination with the Cohesion Fund	Total
As on 1 January 2016	**125,911**	**22,218**	**148,129**
Recognised part of the subsidy	-7,506	-1,325	-8,831
As on 31 December 2016	**118,405**	**20,893**	**139,298**
Short-term as on 31 December 2016	7,506	1,324	8,830
Long-term as on 31 December 2016	110,899	19,569	130,468
As on 31 December 2016	**118,405**	**20,893**	**139,298**

in thousand EUR	Subsidy from the Cohesion Fund	Subsidy from the State Budget in combination with the Cohesion Fund	Total
As on 1 January 2015	**58,372**	**10,300**	**68,672**
Drawing	73,872	13,036	86,908
Recognised part of the subsidy	-6,333	-1,118	-7,451
As on 31 December 2015	**125,911**	**22,218**	**148,129**
Short-term as on 31 December 2015	7,506	1,324	8,830
Long-term as on 31 December 2015	118,405	20,894	139,299
As on 31 December 2015	**125,911**	**22,218**	**148,129**

23 INCOME FROM SUBSIDIES (CONT.)

Project EFD2A: In January 2014 a Contract on provision of a non-repayable financial contribution under Operational Programme Transport was concluded focusing on procuring and installation of the ETCS system for the electric double-deck units (EDU) for suburban and regional passenger railway transport within ITS. The maximum amount of eligible costs was contractually determined as EUR 6,984 thousand, while the maximum amount of financing of the non-repayable financial contribution as EUR 6,601 thousand. The funding of the non-repayable financial contribution is divided between the Cohesion Fund in 85% and the State Budget of the Slovak Republic in 15%. ETCS was installed in the course of 2016.

in thousand EUR	Subsidy from the Cohesion Fund	Subsidy from the State Budget in combination with the Cohesion Fund	Total
As on 1 January 2016	**5,611**	**991**	**6,602**
Recognised part of the subsidy	-281	-50	-331
As on 31 December 2016	**5,330**	**941**	**6,271**
Short-term as on 31 December 2016	281	50	331
Long-term as on 31 December 2016	5,049	891	5,940
As on 31 December 2016	**5,330**	**941**	**6,271**

in thousand EUR	Subsidy from the Cohesion Fund	Subsidy from the State Budget in combination with the Cohesion Fund	Total
As on 1 January 2015	**842**	**149**	**991**
Drawing	4,769	842	5,611
As on 31 December 2015	**5,611**	**991**	**6,602**
Short-term as on 31 December 2015	0	0	0
Long-term as on 31 December 2015	5,611	991	6,602
As on 31 December 2015	**5,611**	**991**	**6,602**

Project EFD2B: A Contract on provision of a non-repayable financial contribution under the Operational Programme Transport signed in January 2014 focuses on procurement of a project preparation concerning technical and hygienic maintenance of the rolling stock. The maximum amount of eligible costs was contractually determined as EUR 8,024 thousand, while the maximum amount of financing of the non-repayable financial contribution as EUR 7,623 thousand. The funding of the non-repayable financial contribution is divided between the Cohesion Fund in 85% and the State Budget of the Slovak Republic in 15%..

23 INCOME FROM SUBSIDIES (CONT.)

in thousand EUR	Subsidy from the Cohesion Fund	Subsidy from the State Budget in combination with the Cohesion Fund	Total
As on 1 January 2016	**6,089**	**1,075**	**7,164**
Drawing	200	35	235
As on 31 December 2016	**6,289**	**1,110**	**7,399**
Short-term as on 31 December 2016	0	0	0
Long-term as on 31 December 2016	6,289	1,110	7,399
As on 31 December 2016	**6,289**	**1,110**	**7,399**

in thousand EUR	Subsidy from the Cohesion Fund	Subsidy from the State Budget in combination with the Cohesion Fund	Total
As on 1 January 2015	**2,554**	**451**	**3,005**
Drawing	3,535	624	4,159
As on 31 December 2015	**6,089**	**1,075**	**7,164**
Short-term as on 31 December 2015	0	0	0
Long-term as on 31 December 2015	6,089	1,075	7,164
As on 31 December 2015	**6,089**	**1,075**	**7,164**

Project EFD2C: A Contract on provision of a non-repayable financial contribution under the Operational Programme Transport was concluded, focusing on procurement of the Intelligent Transport Information System (IDIS). The maximum amount of eligible costs was contractually determined as EUR 2,688 thousand, while the maximum amount of financing of the non-repayable financial contribution as EUR 2,554 thousand. The funding of the non-repayable financial contribution is divided between the Cohesion Fund in 85% and the State Budget of the Slovak Republic in 15%. In the course of 2015 IDIS was procured and launched into operation. In October 2016 the project was corrected and reduced by 5 %, which means by EUR 128 thousand.

in thousand EUR	Subsidy from the Cohesion Fund	Subsidy from the State Budget in combination with the Cohesion Fund	Total
As on 1 January 2016	**2,062**	**364**	**2,426**
Drawing	-109	-19	-128
Recognised part of the subsidy	-429	-76	-505
As on 31 December 2016	**1,524**	**269**	**1,793**
Short-term as on 31 December 2016	412	73	485
Long-term as on 31 December 2016	1,112	196	1,308
As on 31 December 2016	**1,524**	**269**	**1,793**

23 INCOME FROM SUBSIDIES (CONT.)

in thousand EUR	Subsidy from the Cohesion Fund	Subsidy from the State Budget in combination with the Cohesion Fund	Total
As on 1 January 2015	**0**	**0**	**0**
Drawing	2,171	383	2,554
Recognised part of the subsidy	-109	-19	-128
As on 31 December 2015	**2,062**	**364**	**2,426**
Short-term as on 31 December 2015	434	77	511
Long-term as on 31 December 2015	1,628	287	1,915
As on 31 December 2015	**2,062**	**364**	**2,426**

Project EFD2D: In May 2014 the Contract on provision of a non-repayable financial contribution under the Operational Programme Transport was concluded, focusing on procurement and renewal of rolling stock for suburban and regional public passenger services by rail within ITS. The maximum amount of eligible costs was contractually determined as EUR 39,233 thousand, while the maximum amount of financing of the non-repayable financial contribution as EUR 37,228 thousand. The funding of the non-repayable financial contribution is divided between the Cohesion Fund in 85% and the State Budget of the Slovak Republic in 15%.

In November 2015 the Managing Authority (MTCRD) defined a financial adjustment - a correction of the project in question in the amount of 5%, which represents amount of EUR 1,096 thousand.

in thousand EUR	Subsidy from the Cohesion Fund	Subsidy from the State Budget in combination with the Cohesion Fund	Total
As on 1 January 2016	**28,926**	**5,105**	**34,031**
Drawing	0	0	0
Recognised part of the subsidy	-1,797	-317	-2,114
As on 31 December 2016	**27,129**	**4,788**	**31,917**
Short-term as on 31 December 2016	1,797	317	2, 114
Long-term as on 31 December 2016	25,332	4,471	29,803
As on 31 December 2016	**27,129**	**4,788**	**31,917**

in thousand EUR	Subsidy from the Cohesion Fund	Subsidy from the State Budget in combination with the Cohesion Fund	Total
As on 1 January 2015	**18,602**	**3,283**	**21,885**
Drawing	11,884	2,097	13,981
Recognised part of the subsidy	-1,560	-275	-1,835
As on 31 December 2015	**28,926**	**5,105**	**34,031**
Short-term as on 31 December 2015	1,865	329	2,194
Long-term as on 31 December 2015	27,061	4,776	31,837
As on 31 December 2015	**28,926**	**5,105**	**34,031**

23 INCOME FROM SUBSIDIES (CONT.)

Project EFD2E: The Contract on provision of a non-repayable financial contribution under the Operational Programme Transport published in January 2015 focuses on procurement of new air-conditioned passenger coaches and modernisation of motive power units for suburban and regional public railway transport within ITS. The maximum amount of eligible costs was contractually determined as EUR 39,427 thousand, while the maximum amount of financing of the non-repayable financial contribution as EUR 37,192 thousand. The funding of the non-repayable financial contribution is divided between the Cohesion Fund in 85% and the State Budget of the Slovak Republic in 15%.

in thousand EUR	Subsidy from the Cohesion Fund	Subsidy from the State Budget in combination with the Cohesion Fund	Total
As on 1 January 2016	**31,180**	**5,502**	**36,682**
Recognised part of the subsidy	-1,472	-260	-1,732
As on 31 December 2016	**29,708**	**5,242**	**34,950**
Short-term as on 31 December 2016	1,472	260	1,732
Long-term as on 31 December 2016	28,236	4,982	33,218
As on 31 December 2016	**29,708**	**5,242**	**34,950**

in thousand EUR	Subsidy from the Cohesion Fund	Subsidy from the State Budget in combination with the Cohesion Fund	Total
As on 1 January 2015	**0**	**0**	**0**
Drawing	31,537	5,565	37,102
Recognised part of the subsidy	-357	-63	-420
As on 31 December 2015	**31,180**	**5,502**	**36,682**
Short-term as on 31 December 2015	1,338	236	1,574
Long-term as on 31 December 2015	29,842	5,266	35,108
As on 31 December 2015	**31,180**	**5,502**	**36,682**

23 INCOME FROM SUBSIDIES (CONT.)

Project EFD2F: The Contract on provision of a non-repayable financial contribution under the Operational Programme Transport published in August 2015 focuses on refunding of costs related to modernisation of passenger coaches and motive power units for suburban and regional public railway transport within ITS. The maximum amount of eligible costs was contractually determined as EUR 34,939 thousand, while the maximum amount of financing of the non-repayable financial contribution as EUR 33,189 thousand. The funding of the non-repayable financial contribution is divided between the Cohesion Fund in 85% and the State Budget of the Slovak Republic in 15%.

in thousand EUR	Subsidy from the Cohesion Fund	Subsidy from the State Budget in combination with the Cohesion Fund	Total
As on 1 January 2016	**23,184**	**4,091**	**27,275**
Recognised part of the subsidy	-1,511	-266	-1,777
As on 31 December 2016	**21,673**	**3,825**	**25,498**
Short-term as on 31 December 2016	1,511	267	1,778
Long-term as on 31 December 2016	20,162	3,558	23,720
As on 31 December 2016	**21,673**	**3,825**	**25,498**

in thousand EUR	Subsidy from the Cohesion Fund	Subsidy from the State Budget in combination with the Cohesion Fund	Total
As on 1 January 2015	**0**	**0**	**0**
Drawing	28,211	4,978	33,189
Recognised part of the subsidy	-5,027	-887	-5,914
As on 31 December 2015	**23,184**	**4,091**	**27,275**
Short-term as on 31 December 2015	720	127	847
Long-term as on 31 December 2015	22,464	3,964	26,428
As on 31 December 2015	**23,184**	**4,091**	**27,275**

Project EFD2G: In May 2014 the Contract on provision of a non-repayable financial contribution under the Operational Programme Transport was concluded, focusing on Increasing safety of regional railway transport through interoperable communication devices. The maximum amount of eligible costs was contractually determined as EUR 1,921 thousand, while the maximum amount of financing of the non-repayable financial contribution as EUR 1,825 thousand. The funding of the non-repayable financial contribution is divided between the Cohesion Fund in 85% and the State Budget of the Slovak Republic in 15%.

23 INCOME FROM SUBSIDIES (CONT.)

in thousand EUR	Subsidy from the Cohesion Fund	Subsidy from the State Budget in combination with the Cohesion Fund	Total
As on 1 January 2016	**1,486**	**263**	**1,749**
Recognised part of the subsidy	-258	-45	-303
As on 31 December 2016	**1,228**	**218**	**1,446**
Short-term as on 31 December 2016	258	45	303
Long-term as on 31 December 2016	970	173	1,143
As on 31 December 2016	**1,228**	**218**	**1,446**

in thousand EUR	Subsidy from the Cohesion Fund	Subsidy from the State Budget in combination with the Cohesion Fund	Total
As on 1 January 2015	**0**	**0**	**0**
Drawing	1,551	274	1,825
Recognised part of the subsidy	-65	-11	-76
As on 31 December 2015	**1,486**	**263**	**1,749**
Short-term as on 31 December 2015	259	46	305
Long-term as on 31 December 2015	1,227	217	1444
As on 31 December 2015	**1,486**	**263**	**1,749**

Project EFD2H: The Contract on provision of a non-repayable financial contribution under the Operational Programme Transport published in June 2015 focuses on modernisation of passenger coaches and motive power units for suburban and regional public railway transport within ITS. The maximum amount of eligible costs was contractually determined as EUR 19,287 thousand, while the maximum amount of financing of the non-repayable financial contribution as EUR 18,302 thousand. The funding of the non-repayable financial contribution is divided between the Cohesion Fund in 85% and the State Budget of the Slovak Republic in 15%.

in thousand EUR	Subsidy from the Cohesion Fund	Subsidy from the State Budget in combination with the Cohesion Fund	Total
As on 1 January 2016	**13,934**	**2,459**	**16,393**
Drawing	1,514	267	1,781
Recognised part of the subsidy	-959	-169	-1,128
As on 31 December 2016	**14,489**	**2,557**	**17,046**
Short-term as on 31 December 2016	959	169	1,128
Long-term as on 31 December 2016	13,530	2,388	15,918
As on 31 December 2016	**14,489**	**2,557**	**17,046**

23 INCOME FROM SUBSIDIES (CONT.)

in thousand EUR	Subsidy from the Cohesion Fund	Subsidy from the State Budget in combination with the Cohesion Fund	Total
As on 1 January 2015	**0**	**0**	**0**
Drawing	14,043	2,478	16,521
Recognised part of the subsidy	-109	-19	-128
As on 31 December 2015	**13,934**	**2,459**	**16,393**
Short-term as on 31 December 2015	402	71	473
Long-term as on 31 December 2015	13,532	2,388	15,920
As on 31 December 2015	**13,934**	**2,459**	**16,393**

Projevt EFD2I: A Contract on provision of a non-repayable financial contribution under the Operational Programme Transport signed in August 2015 focuses on procurement of a project preparation concerning technical and hygienic maintenance of the rolling stock, phase 2. The maximum amount of eligible costs was contractually determined as EUR 6,300 thousand, while the maximum amount of financing of the non-repayable financial contribution as EUR 5,985 thousand. The funding of the non-repayable financial contribution is divided between the Cohesion Fund in 85% and the State Budget of the Slovak Republic in 15%.

in thousand EUR	Subsidy from the Cohesion Fund	Subsidy from the State Budget in combination with the Cohesion Fund	Total
As on 1 January 2016	**4,833**	**853**	**5,686**
Drawing	0	0	0
As on 31 December 2016	**4,833**	**853**	**5,686**
Short-term as on 31 December 2016	0	0	0
Long-term as on 31 December 2016	4,833	853	5,686
As on 31 December 2016	**4,833**	**853**	**5,686**

in thousand EUR	Subsidy from the Cohesion Fund	Subsidy from the State Budget in combination with the Cohesion Fund	Total
As on 1 January 2015	**0**	**0**	**0**
Drawing	4,833	853	5,686
As on 31 December 2015	**4,833**	**853**	**5,686**
Short-term as on 31 December 2015	0	0	0
Long-term as on 31 December 2015	4,833	853	5,686
As on 31 December 2015	**4,833**	**853**	**5,686**

23 INCOME FROM SUBSIDIES (CONT.)

Project EFD2J: The Contract on provision of a non-repayable financial contribution under the Operational Programme Transport published in December 2015 focuses on refunding of costs related to modernisation of multiple-unit sets and trailer coaches for suburban and regional public railway transport within ITS. The maximum amount of eligible costs was contractually determined as EUR 9,048 thousand, while the maximum amount of financing of the non-repayable financial contribution as EUR 8,595 thousand. The funding of the non-repayable financial contribution is divided between the Cohesion Fund in 85% and the State Budget of the Slovak Republic in 15%.

in thousand EUR	Subsidy from the Cohesion Fund	Subsidy from the State Budget in combination with the Cohesion Fund	Total
As on 1 January 2016	**3,377**	**596**	**3,973**
Drawing	1,735	306	2,041
Recognised part of the subsidy	-1,188	-209	-1,397
As on 31 December 2016	**3,924**	**693**	**4,617**
Short-term as on 31 December 2016	497	88	585
Long-term as on 31 December 2016	3,427	605	4,032
As on 31 December 2016	**3,924**	**693**	**4,617**

in thousand EUR	Subsidy from the Cohesion Fund	Subsidy from the State Budget in combination with the Cohesion Fund	Total
As on 1 January 2015	**0**	**0**	**0**
Drawing	5,570	983	6,553
Recognised part of the subsidy	-2,193	-387	-2,580
As on 31 December 2015	**3,377**	**596**	**3,973**
Short-term as on 31 December 2015	370	65	435
Long-term as on 31 December 2015	3,007	531	3,538
As on 31 December 2015	**3,377**	**596**	**3,973**

23 INCOME FROM SUBSIDIES (CONT.)

Project EFTAP TSI. On 4 November 2016 a Grant Agreement no. INEA/CEF/TRAN/M20158/1138635 on financing of the Project of implementation of technical interoperability for TAP TSI subsystem by ZSSK in the total amount of EUR 8,659 thousand was signed. It concerns electronic communication and data exchange between transport operators, infrastructure manager and third parties involved in the transport process. The financing shares are agreed as 85 % from CEF resources: EUR 7,360 thousand and 15 % from own resources of ZSSK: EUR 1,299 thousand.

in thousand EUR	Subsidy from CEF	Total
As on 1 January 2016	0	0
Drawing	1,535	1,535
Recognised part of the subsidy	0	0
As on 31 December 2016	**1,535**	**1,535**
Short-term as on 31 December 2016	0	0
Long-term as on 31 December 2016	1,535	1,535
As on 31 December 2016	**1,535**	**1,535**

24 OTHER NET OPERATING (COSTS) REVENUES

in thousand EUR	31 December 2016	31 December 2015
Insurance of long-term tangible assets	-418	-914
Damage compensation	1,074	1,313
Revenues from sale of assets and material	294	382
Other net revenues	2,448	8,934
Total	**3,398**	**9,715**

25 CONSUMPTION AND SERVICES

in thousand EUR	31 December 2016	31 December 2015
Track access charges	-47,455	-48,008
Repairs and maintenance	-14,598	-15,444
Energy consumption	-29,739	-32,454
Material consumption	-32,080	-33,610
Performance of passenger coaches	-9,955	-9,629
Performance of motive power units	-7,926	-7,767
Shunting	-1,110	-1,170
Cleaning of vehicles, tidying-up, waste removal	-5,102	-5,253
Rental	-4,234	-3,424
Services of Wagon Slovakia	-3,391	-3,579
IT services	-6,256	-6,222
Travelling costs	-2,555	-2,487
Operators' performance	-1,285	-1,258
Costs on replacement bus transport during traffic closures	-1,570	-1,555
Costs related to care of employees	-1,717	-1,784
Mediating commissions	-1,817	-1,820
Services of ŽSR employees	-4,407	-4,381
Costs on audit	-37	-30
of which costs on audit of the current Financial Statements	-27	-28
Other assurance services	-795	-792
Annual reserve on un-billed deliveries	-11	6,425
of which: recognition of the environmental reserve	0	6,425
Other costs	-2,643	-3,482
Total	**-178,683**	**-177,724**

Significant items of consumed purchases and services in 2016 include mostly costs on track access charges, and traction energy consumption. The Company has concluded a business relationship concerning the use of ŽSR infrastructure where the price depends on kilometres and rates for individual types of transport as stipulated by the Decree of the Transport Authority. It has also concluded contracts on purchase of traction energy (see note 31 – Related parties). Costs on repairs regard mainly rolling stock and services related to operation of rolling stock. The Company has contracts for provision of these activities with Železničná spoločnosť Cargo Slovakia, a.s., ŽOS Trnava, a.s., and ŽOS Vrútky, a.s. and ŽOS Zvolen a.s.

26 PERSONNEL COSTS

in thousand EUR	31 December 2016	31 December 2015
Labour costs	-72,099	-68,981
Social security costs	-29,736	-28,655
Total	**-101,835**	**-97,636**

An overview of remuneration of the Supervisory Board and the Board of Directors:

in thousand EUR	31 December 2016	31 December 2015
Current members		
Board of Directors	18	31
Supervisory Board	20	16
Former members		
Board of Directors	15	
Supervisory Board	3	
Total remunerations:	**56**	**47**

As on 31 December 2016 the number of employees was 5,924 (5,949 as on 31 December 2015), of which 217 managing employees (218 as on 31 December 2015).

The average wage in 2016 amounted to EUR 990.50, while in 2015 it was EUR 956.25.

27 DEPRECIATION, AMORTISATION AND IMPAIRMENT OF TANGIBLE ASSETS

in thousand EUR	31 December 2016	31 December 2015
Depreciation	-85,340	-80,888
Residual value of discarded long-term tangible and intangible assets	-630	-5,761
Impairment of significant spare parts	0	0
Impairment of other assets	0	0
Total	**-85,970**	**-86,649**

28 FINANCIAL INCOME

in thousand EUR	31 December 2016	31 December 2015
Yield interests	70	9
Other net financial income	3	0
Total	**73**	**9**

29 FINANCIAL COSTS

in thousand EUR	31 December 2016	31 December 2015
Cost interests	-3,427	-3,487
Bank expenses	-333	-388
Net exchange rate losses	41	546
Total	**-3,719**	**-3,329**

30 FINANCIAL DERIVATIVES

in thousand EUR	31 December 2016	31 December 2015
Net change in derivative measurement	5,053	5,459
Costs on derivative operations, except for changes in derivative measurements (net)	-5,164	-5,652
Total	**-111**	**-193**

31 FINANCIAL RISK MANAGEMENT

The activities of the Company are exposed to various market risks. The main risks for the Company include the interest risk, liquidity risk and, a less significant credit risk. To minimize the risk resulting from changes in exchange rate differences and interest rates, in the past the Company entered into transactions with required parameters, or concluded derivative contracts to hedge individual transactions and total risks via instruments available on the market.

Transactions meeting the hedging conditions are called hedging transactions, while those carried out for hedging purposes but not meeting the conditions for hedging operations are classified as commercial transactions.

The main financial liabilities of the Company include loans and borrowings bearing interest, bank overdrafts and trade liabilities. The main purpose of these financial liabilities is to secure the funding for the Company operation. The Company has various financial assets at its disposal, including trade receivables and other receivables and short-term deposits which result directly from its activities.

The Board of Directors of the Company monitors and approves the procedures of management of the above risks as stated below.

Interest risk

The Company is exposed to the risk of changes in the market interest rates associated with long-term and short-term liabilities resulting from loans and bank overdrafts with variable interest rates. The Company has a broad portfolio of loans with various variable as well as fixed interest rates, which the Company is able to keep at a very low level. In 2015, as a reaction to developments of the money market, the Company applied fixed rates in case of all long-term loans. The Company is prepared to react to the rates development. The Company has been monitoring the market development constantly.

The following table shows a sensitivity analysis concerning changes in interest rate by 100 basis point upwards or downwards, assuming all other variables would remain without changes. It includes a forecasted impact on income before taxation for the period of 12 months after the balance-sheet date.

	31 December 2016	31 December 2015
O/N, 1M EURIBOR (+/-1 %)	+/- 0.624	+/- 0.564
3M, 6M EURIBOR (+/-1 %)	+/- 2.001	+/- 2.381

Liquidity risk

The Company policy is to hold sufficient amount of financial means and financial equivalents in compliance with its financial strategy, or to have financial means available in an adequate amount from foreign resources to cover the insufficient liquidity risk. The amount of foreign resources in the form of available loans as on 31 December 2016 and 2015 is as follows:

in thousand EUR	31 December 2016	31 December 2015
Long-term loan resources	231,596	231,509
Short-term loan resources	110,050	80,283
Total available loan resources	**341,646**	**311,792**

31 FINANCIAL RISK MANAGEMENT (CONT.))

Liquidity risk (cont.)

The following table shows financial liabilities based on contractual non-discounted payments by maturity dates

in thousand EUR	Within 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Long-term loans and financial aid	0	0	83,063	148,533	**231,596**
Trade liabilities and other liabilities	35,717	14,125	0	0	**49,842**
Short-term loans	5,093	104,956	0	0	**110,050**
Total as on 31 December 2016	40,810	119,081	83,063	148,533	**391,488**

in thousand EUR	Within 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Long-term loans and financial aid	0	0	104,669	126,840	**231,509**
Trade liabilities and other liabilities	46,282	14,989	270	0	**61,541**
Short-term loans	7,388	72,895	0	0	**80,283**
Total as on 31 December 2015	53,670	87,884	104,939	126,840	**373,333**

The Company applies cash-flow planning to manage the liquidity risk. The actual cash-flow development is then evaluated at regular basis. In case risk events occur that would threaten the liquidity, measures and operative instruments are modelled in order to manage the liquidity. The Company has sufficient short-term operative loan possibilities to span short-term oscillations in liquidity.

Credit risk

Credit risk represents a risk of financial loss of the Company in case a customer or a counterparty to a financial instrument fails to fulfil its contractual obligations. The Company sells its services to various customers, of which none, whether individually or jointly, represents a significant risk of unpaid receivables as to their volume, solvency or nature of business. The Company management monitors continuously the credit risk exposure, where it is governed by an internal regulation for claims.
A certain risk of failed payment amounts to the carrying amount of each financial asset, including financial derivatives, reported in the balance sheet and reduced by allowance. The Company has the risk under control, as it is strictly limited by the measures applied. The Company further constantly monitors development of the risk.

Capital management

The main objective of the Company as regards capital management is to ensure high credit rating and sound financial capital indicators with the aim to support its business activity and maximize the value for shareholders.
The Company manages and adjusts its capital structure with respect to changes in economic conditions.

The Company monitors its indebtedness through an indebtedness indicator calculated as the ratio of debt consisting of interest-bearing loans and borrowings and financial aid from third parties, and the equity, as well as through an indebtedness indicator calculated in relation to the total assets of the Company.

31 FINANCIAL RISK MANAGEMENT (CONT.)

Capital management (cont.)

in thousand EUR	31 December 2016	31 December 2015
Long-term financial aid	24,106	46,706
Long-term loans	207,490	184,803
Short-term financial aid	22,600	8,000
Short-term loans, including short-term part of long-term loans	87,450	72,283
Debt	**341,646**	**311,792**
Shareholders' equity	**143,487**	**149,165**
Indicators of indebtedness (%)	**238 %**	**209 %**

32 POSTAL SERVICES

Železničná spoločnosť Slovensko, a.s. was registered at the Postal Regulatory Office in the Postal Services Register on 15 August 2012 under number 17 as a postal entity providing interchangeable postal services and other postal services in compliance with Article 23 of Act no. 324/2011 Coll. on postal services.

In accordance with the provisions of Article 36 of the Act on Postal Services, the Company is obliged to keep separate accounts on costs and revenues from interchangeable services. Separate bookkeeping of costs and revenues is ensured by the second degree of analytical evidence.
In terms of the postal services audit carried out on 6 November 2016, only a part of costs related to external revenues is reported. A part of costs for internal services is not part of the report. Data of 2016 were reported and data for 2015 were adjusted in terms of this methodology.*
The greatest revenues of 2016 include revenues from concluded long-term contracts on provision of postal services for Železničná spoločnosť Cargo and Železnice Slovenskej republiky.

Operation costs and revenues

in thousand EUR	as on 31 December 2016	as on 31 December 2015 *adjusted
Consumed material	- 3	-5
Energy consumption	-7	-8
Repairs and maintenance	-5	- 1
Personnel costs	-284	-368
Depreciation of tangible and intangible assets	-12	-16
Other costs	-57	-16
Total costs	**-368**	**-474**
Revenues from provision of interchangeable postal services	**423**	**535**
Profit (loss)	**55**	**61**

33 RELATED PARTIES

Parties related to the Company are the companies associated through property: ŽSR, ZSSK CARGO, EUROFIMA and the Board of Directors.
The following table shows the total amount of transactions concluded with related parties during the years ending on 31 December 2016 and 2015:

in thousand EUR	31 December 2016			
Related parties	**Revenues generated with related parties**	**Costs on transactions with related parties**	**Receivables towards related parties**	**Liabilities towards related parties**
ŽSR	469	84,446	83	2,396
ZSSK CARGO	3,584	13,333	443	1,263
EUROFIMA	0	0	0	46,706

in thousand EUR	31 December 2015			
Related parties	**Revenues generated with related parties**	**Costs on transactions with related parties**	**Receivables towards related parties**	**Liabilities towards related parties**
ŽSR	562	87,498	53	3,854
ZSSK CARGO	3,924	13,434	501	1,963
EUROFIMA	0	0	0	54,706

The main contracts of the Company with ŽSR and ZSSK CARGO are concluded usually for a period of one year and are renewed on a yearly basis. Costs towards ŽSR include mostly track access charges and costs on purchase of traction electric energy. Costs towards ZSSK CARGO include mostly repairs, reconstructions and modernisation of passenger coaches and motive power units, and purchase of diesel.

33 RELATED PARTIES (CONT.)

Statutory body: Board of Directors

Name	Position	From:	Note
Mgr. Filip Hlubocký	Chairman	18/06/2016	
Dipl.-Ing. Patrik Horný	Vice-Chairman	21/06/2016	Member from 18 June 2016 to 20 June 2016
Ing. Karol Martinček	Member	18/06/2016	
Ing. Pavol Gábor	Chairman	26/04/2012	till 17 June 2016
Ing. Ľubomír Húska	Vice-Chairman	26/04/2012	till 17 June 2016
Ing. Igor Krško	Member	26/04/2012	till 17 June 2016

Supervisory body: Supervisory Board

Name	Position	From:	Note
Ing. Jaroslav Mikla	Chairman	01/09/2015	
Mgr. Ladislava Cengelová	Vice-Chairman	09/09/2015	Member from 1 September 2015 to 8 September 2015
Jozef Hlavatý	Member	20/01/2010	
Ing. Štefan Hlinka	Member	15/08/2012	till 17 June 2016
Ing. Vladimír Ľupták	Member	15/08/2012	till 17 June 2016
Peter Dubovský	Member	23/01/2015	
Ing. Martin Kapitulík	Member	18/06/2016	
Peter Cibula, Mgmt.	Member	18/06/2016	

34 EVENTS WHICH OCCURRED AFTER THE BOOK CLOSING DATE

Železničná spoločnosť Slovensko, a.s. does not report any significant events after the date of the Statement of Financial Position.

ŽELEZNIČNÁ SPOLOČNOSŤ SLOVENSKO
NÁRODNÝ DOPRAVCA

Železničná spoločnosť Slovensko, a.s.
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