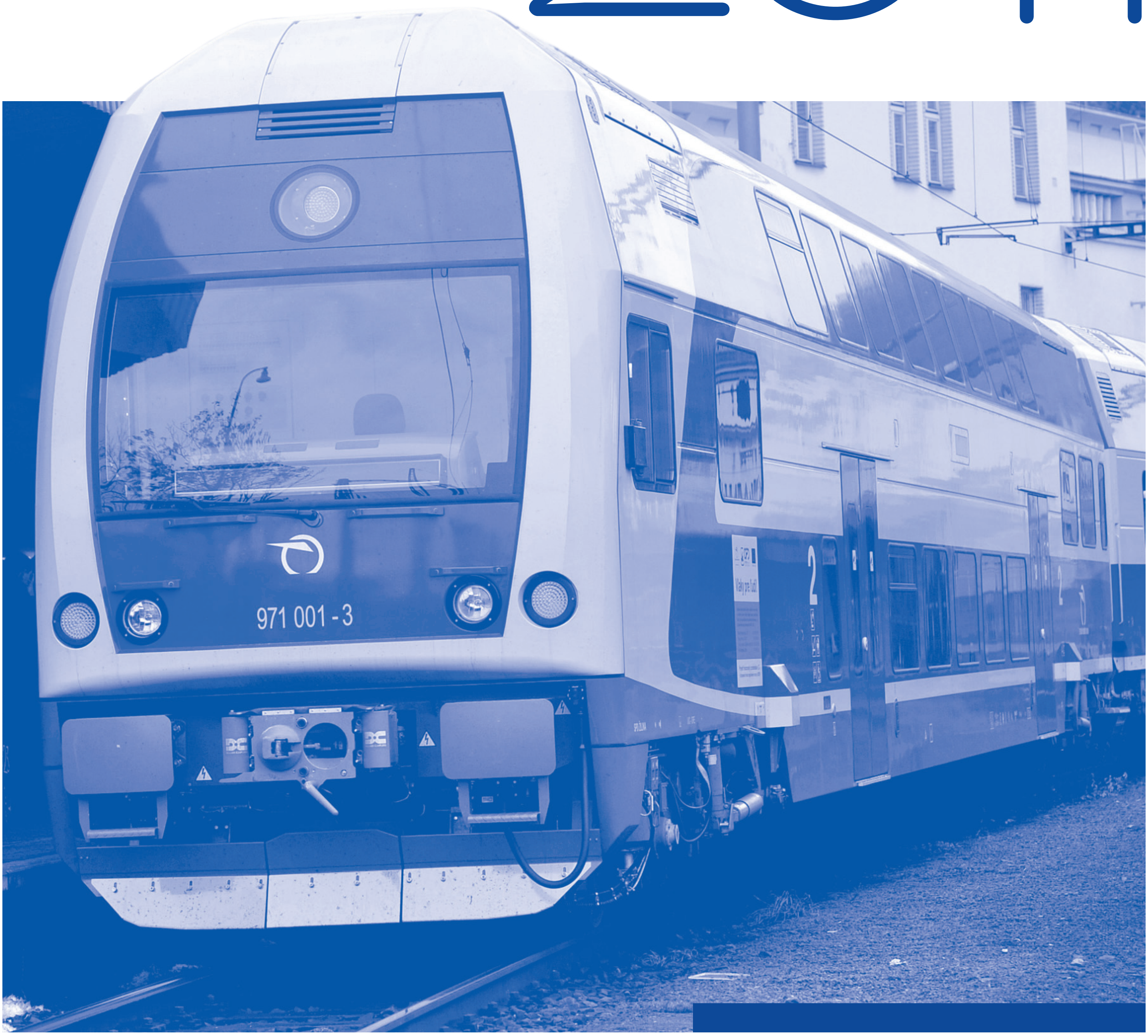
ŽELEZNIČNÁ SPOLOČNOSŤ SLOVENSKO

FINANCIAL STATEMENTS

2011



ŽELEZNIČNÁ SPOLOČNOSŤ SLOVENSKO

FINANCIAL STATEMENTS

2011

Separate Financial Statements prepared in accordance with the International Financial Reporting Standards as adopted by the European Union and Independent Auditor´s Report

For the year ended on 31 December 2011

ŽELEZNIČNÁ SPOLOČNOSŤ SLOVENSKO

Železničná spoločnosť Slovensko, a.s.

Separate Financial Statements prepared in accordance with the International Financial Reporting Standards as adopted by the European Union

as at 31 December 2011

Ing. Pavol Gábor

Chairman of the Board of Directors

Ing. Ľubomír Húska

Vice Chairman of the Board of Directors

Bratislava, 23 July 2012

CONTENT

NOTES TO THE FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

in thousand EUR	Note	31 December 2011	31 December 2010 – modified*
ASSETS			
Long-term assets			
Long-term tangible assets	4	**603,848**	**525,420**
Investments into real estates		**653**	**653**
Long-term intangible assets	5	**4,007**	**4,891**
Financial assets	6	**5,015**	**4,875**
Long-term receivables from Contract on services in public interest	22	**80,634**	**148,270**
Other long-term assets	9	**1,658**	**6,891**
		695,815	**691,000**
Current assets			
Inventories	8	**3,240**	**2,356**
Trade receivables and other receivables	9	**30,530**	**24,473**
Receivables from Contract on services in public interest	22	**70,537**	**-**
Financial means and financial equivalents	10	**20,277**	**1,069**
		124,584	**27,898**
Held-for-sale assets		**423**	**425**
TOTAL ASSETS		**820,822**	**719,323**
SHAREHOLDERS´ EQUITY AND LIABILITIES			
Shareholders' equity			
Registered share capital	11	**212,441**	**212,441**
Statutory reserve fund	11	**24,118**	**23,627**
Other funds	11	**-33,622**	**-33,622**
Unpaid loss	11	**-8,382**	**-13,147**
Profit / (loss) in the accounting period	11	**- 15,765**	**5,256**
Total shareholders' equity		**178,790**	**194,555**
Long-term liabilities			
Long-term financial aid	12	**119,706**	**126,950**
Interest-bearing loans and borrowings	13	**28,204**	**14,470**
Employee benefits	14	**6,794**	**6,465**
Reserves	15	**2,186**	**2,760**
Financial derivatives	16	**40,431**	**41,966**
Deferred tax	20	**10,858**	**10,531**
Other long-term liabilities	17, 23	**109,360**	**57,982**
		317,539	**261,124**
Short-term liabilities			
Short-term financial aid	12	**7,244**	**13,000**
Interest-bearing loans and borrowings	13	**211,530**	**183,561**
Employee benefits	14	**554**	**503**
Reserves	15	**1,355**	**2,034**
Trade liabilities and other liabilities	18, 23	**103,810**	**64,546**
		324,493	**263,644**
Total liabilities		**642,032**	**524,768**
TOTAL SHAREHOLDERS´ EQUITY AND LIABILITIES		**820,822**	**719,323**

**Modified in compliance with IAS 8. Details under Note 2.4.*

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

in thousand EUR	Note	31 December 2011	31 December 2010 – modified*
Revenues			
Transport of passengers and related revenues	21	**101,778**	**96,949**
Subsidies from Contract on services in public interest	22	**204,999**	**228,114**
Other subsidies	23	**5,779**	**3,364**
		312,556	**328,427**
Costs and expenses			
Consumption and services	25	**-184,546**	**-190,136**
Labour costs	26	**-70,789**	**-73,398**
Depreciation, amortisation and impairment of tangible assets	4,5	**-55,682**	**-45,898**
Other net operating (costs) revenues	24	**-2,339**	**2,587**
		-313,356	**-306,845**
Financial (costs) revenues			
Financial income	27	**2,923**	**1,347**
Financial costs	28	**-7,038**	**-5,588**
Loss from financial derivatives	29	**-10,522**	**-9,483**
		-14,637	**-13,724**
Tax costs	20	**-328**	**-2,602**
Profit / (loss) in the accounting period		**-15,765**	**5,256**
Other comprehensive income:		**0**	**0**
Changes in cash flow hedge, net			
Other comprehensive income in the accounting period		**0**	**0**
Total comprehensive income in the accounting period		**-15,765**	**5,256**

**Modified in compliance with IAS 8. Details under Note 2.4.*

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED ON 31 DECEMBER 2011

in thousand EUR	Registered share capital	Statutory reserve fund	Other funds	Unpaid loss	Profit / (loss) in the accounting period	Total
As on 1 January 2010 – modified*	212,441	20,912	-33,622	-37,581	**27,151**	**189,301**
Profit / (loss) in the reporting period – modified*	0	0	0	0	5,256	**5,256**
Other comprehensive income	0	0	0	0	0	**0**
Total comprehensive income	0	0	0	0	5,256	**5,256**
Profit distribution	0	2,715	0	24,436	-27,151	**0**
As on 31 December 2010 – modified*	**212,441**	**23,627**	**-33,622**	**-13,147**	**5,256**	**194,555**
Profit / (loss) in the reporting period	0	0	0	0	-15,765	**-15,765**
Other comprehensive income	0	0	0	0	0	**0**
Total comprehensive income	0	0	0	0	-15,765	**-15,765**
Profit distribution	0	491	0	4,765	-5,256	**0**
Final balance as at 31 December 2011	**212,441**	**24,118**	**-33,622**	**-8,382**	**-15,765**	**178,790**

**Modified in compliance with IAS 8. Details under Note 2.4.*

STATEMENT OF CASH FLOW
FOR THE YEAR ENDED ON 31 DECEMBER 2011

in thousand EUR	Note	31 December 2011	31 December 2010
Operation income		**373,284**	**424,635**
Income from main activity		129,804	131,335
Compensation for services in the public interest	22	204,999	172,608
Other income		8,300	11,225
Income from international clearing		779	297
Income form operation loans		29,402	109,170
Operation costs		**-295,475**	**-302,941**
Costs on material		-24,617	-18,153
Costs on services		-195,353	-214,249
Track access charges		-62,583	-69,206
Wages and other labour costs		-71,094	-70,074
Insurance		-4,411	-465
Received interests		**11**	**4**
Paid interests		**-3,747**	**-1,767**
Dividends +/-		**0**	**0**
Income tax +/-		**0**	**1**
CASH FLOW FROM OPERATING ACTIVITY		**74,073**	**119,932**
Income from sale of long-term assets		86	5
State budget subsidies on investments		0	11,618
Investment subsidies from EU Structural Funds	23	65,508	3,465
Purchase of long-term assets		-108,615	-96,265
CASH FLOW FROM INVESTMENT ACTIVITY		**-43,021**	**-81,177**
Financial income		**50,711**	**3,908**
Income from bank loans		47,557	747
Income from borrowings		0	0
Other financial income		3,154	3,161
Financial costs		**-59,451**	**-41,014**
Costs on bank loans		-35,335	-30,027
Costs on instalments of loans		-13,000	0
Costs on settlement of liabilities from leasing		0	-1,153
Other financial costs		-11,116	-9,834
Paid interests		**-3,104**	**-2,551**
CASH FLOW FROM FINANCIAL ACTIVITY		**-11,844**	**-39,657**
Net increase (decrease) of financial means and financial equivalents		**19,208**	**-902**
Financial means and financial equivalents as on 1 January	10	**1,069**	**1,971**
Financial means and financial equivalents as on 31 December	10	**20,277**	**1,069**

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 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, Construction and Regional Development of the Slovak Republic (MTCRD SR) with the seat at Námestie slobody 6, 811 06 Bratislava. The Company is not part of any consolidated entity. The Company does not figure as an associate partner with unlimited liability in any other company.

The predecessor of the Company, ŽS, was founded on 1 January 2002 by being split from 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, while ŽSR remained in charge of the railway infrastructure. 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.

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 Act of the Slovak National Council no. 513/2009 Coll. on railways as amended, between Železničná spoločnosť Slovensko, a.s. as the transport operator and the State (represented by MTCRD) 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 in the Companies´ Register of the District Court of Bratislava I, Záhradnícka 10, 812 44 Bratislava, Slovakia.

2.1 BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS

The Financial Statements of the Company for the previous reporting period were approved by the regular General Assembly of the Company which took place on 24 June 2011.

The Financial Statements were prepared on the basis of historic prices, except for some derivative financial instruments which were evaluated in their fair value. These Financial Statements include the financial statements of Železničná spoločnosť Slovensko, a.s. and are prepared in compliance with Article 17a (6) of Act 431/2002 on accounting, for the reporting period from 1 January 2011 to 31 December 2011.

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 MTCRD for a period of 10 years, starting as of 1 January 2011.

The Financial Statements and the Notes to the Financial Statements are reported in thousand EUR.

The reporting period is a calendar year.

Declaration of conformity

These Financial Statements were reported in compliance with the International Financial Reporting Standards and all effective IFRS adopted within 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 adopting IFRS EU 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

Accounting principles and methods were consistently applied by the Company in all presented reporting periods, except for as specified in the Notes to the Financial Statements.

During the reporting period the Company applied all new and amended IFRS standards and IFRIC interpretations. Adoption of these standards and interpretations had no significant impact on the Financial Statements of the Company.

The Company applied the following new and amended IFRS standards and IFRIC interpretations as of 1 January 2011, all adopted within the EU:

- Revised IAS 24 Related Party Disclosures grants a certain allowance to reporting entities close to state bodies in connection to the amount of information which such reporting entities are obliged to provide on transactions with related parties and on balances, including contractual liabilities towards a) state bodies which have control, joint control or a significant influence over the reporting entity, and towards b) other entities who are related parties, because the same state body has control, joint control or a significant influence over the reporting unit and this entity. The revised standard requires a specific disclosure in case the reporting entity makes use of this exemption. The revised standard also changes the definition of a related party by including new relationships into the definition, for instance associated companies of the majority owner and companies controlled or jointly controlled by the key management. Revised IAS 24, effective for the reporting period starting on 1 January 2011 does not presume that the changed definition of a related party would influence disclosure of information in the Financial Statements of the Company.

- Amended IAS 32 Financial Instruments: Presentation - Classification of Rights Issues requires that rights, options or warrants to acquire a set number of equity instruments of a reporting unit for a fixed amount in any currency were equity instruments when the reporting entity issues the rights, options or warrants pro rata to all its existing shareholders in the same class of its non-derivative equity instruments. The amendment is not relevant to the Financial Statements of the Company as the Company does not issue any financial instruments.

- Amended IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction deals with accounting of advance payments in case of minimum funding requirements (MFR). The amendment results in the fact that payments of contributions under certain circumstances are reported as assets when the company is to have economic benefits from the advance payments in the future in the form of reduced expenses in the years to follow where otherwise payments of MFR would be required. Amended IFRIC 14, effective for the reporting periods starting on 1 January 2011 or later, is not relevant for the Financial Statements of the Company as the Company does not provide any employee benefit programmes with defined benefits that would contain minimum funding requirements.

Improvement of International Financial Reporting Standards

In May 2010 the International Accounting Standards Board published explanations to the supplements of IAS and IFRIC, in particular in order to remove inconsistencies and explain the used terminology. The following standards and interpretations were modified:

- IFRS 3 Business Combinations (effective for reporting periods starting on 1 July 2011 or later).
- IFRS 7 Financial instruments: Disclosures (effective for reporting periods starting on 1 January 2011 or later).
- IAS 1 Presentation of Financial Statements (effective for reporting periods starting on 1 January 2011 or later).
- IAS 27 Interim requirements for amendments resulting from IAS 27 Consolidated and Separate Financial Statements (effective for the reporting periods starting on 1 July 2010 and later).
- IAS 34 Interim Financial Reporting (effective for the reporting periods starting on 1 January 2011 or later).
- IFRIC 13 Customer Loyalty Programmes (effective for the reporting periods starting on 1 January 2011 or later).
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for the reporting periods starting on 1 July 2010 or later).

Adoption of these improvements had no significant impact on the Financial Statements of the Company.

As on the date of adoption of these Financial Statements, the following standards and interpretations were issued but not effective:

- IAS1 Amendment to IAS 1 Presentation of the Financial Statements – Presentation of items of other comprehensive income (effective for the reporting periods starting on 1 July 2012 or later, the amendment has not been approved by the EU);
- IAS 12 Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets (effective for the reporting periods starting on 1 January 2012 or later, these amendments have not been approved by the EU);
- IAS 19 Amendments to IAS 19 Employee Benefits, (effective for the reporting periods starting on 1 January 2013 or later, these amendments have not been approved by the EU);
- IAS 27 Revised IAS 27 Separate Financial Statements, (effective for the reporting periods starting on 1 January 2013 or later, these amendments have not been approved by the EU);
- IAS 28 Revised IAS 28 Investments in Associates, (effective for the reporting periods starting on 1 January 2013 or later, these amendments have not been approved by the EU);
- IFRS 7 Amendments to IFRS 7 Financial Instruments: Disclosures (effective for the reporting periods starting on 1 January 2011);
- IFRS 9 Financial Instruments, (effective for the reporting periods starting on 1 January 2015 or later, this standard has not been approved by EU);
- IFRS 10 Consolidated Financial Statements, (effective for the reporting periods starting on 1 January 2013 or later, this standard has not been approved by EU);
- IFRS 11 Joint Arrangements, (effective for the reporting periods starting on 1 January 2013 or later, this standard has not been approved by EU);
- IFRS 12 Disclosure of Interests in Other Entities, (effective for the reporting periods starting on 1 January 2013 or later, this standard has not been approved by EU);
- IFRS 13 Fair Value Measurement, (effective for the reporting periods starting on 1 January 2013 or later, this standard has not been approved by EU);

The Company plans application of all standards as of their effective date when the impact of these standards on the financial reporting will be assessed.

2.3 SIGNIFICANT ACCOUNTING ASSESSMENTS, ESTIMATES AND ASSUMPTIONS

Important assessments in application of accounting principles

When applying the accounting principles specified above, the Company management came to certain conclusions with an important impact on the amounts reported in the Financial Statements (except for those subject to the estimates specified below). A more detailed description of these assessments is specified in the respective notes, however, the most important include:

Reserves for costs on environment protection
Regulations, in particular the legislation on the environment protection, do not specify the scope of required redevelopment work or the technology to be used. When specifying the reserve for costs on the environment protection, the Company management relies on advice of specialists, past experience and interpretation of the respective legislation.

Financial lease
The Company has concluded several agreements on rent, which give it a right to use specific assets, mostly railway coaches. The Company determined that, based on these agreements, in fact it takes over all risks and benefits related to ownership of the leased items; they thus fulfil the definition of a financial lease.

Significant accounting assessments and estimates

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 acivities. The Company management makes use 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 management makes estimates of future cash flows related to the environmental liabilities and liabilities resulting from decommissioned assets by comparison of prices, use of analogies with similar past activities and other estimates. At the same time, the timing of these financial flows reflects the current assessment of the priorities by the management, as well as the technological equipment and urgency of these liabilities. 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.

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, to a great degree such estimates are subject to uncertainty.

Depreciation period and residual value of tangible assets

An estimate of lifespan of a long-term asset results from an assessment based on the Company experience with a similar asset. The Company Management determines depreciation periods and residual value of assets on the basis of the current strategic goals of the Company. As on the balance-sheet date, the Company management decides whether the used estimates are still suitable for such determination.

Fair value of financial instruments

Fair value of financial instruments that are not tradable on public market is determined by quoted forward exchange rates for similar financial instruments, bank quotes available as on the date of the Financial Statements, and by evaluation techniques.

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.

2.4 CORRECTION OF MISTAKES OF PREVIOUS YEARS

Examination of the opening assets included examining the investment into the Company assets as of 1 January 2005. The process of splitting-up of the legal predecessor of the Company - Železničná spoločnosť, a.s., - into two independent legal entities involved dissolving of the original company without liquidation. Based on this fact, individual assets were measured by an expert of the Institute of Forensic Engineering at the University of Žilina as on 31 December 2004, who prepared expert's opinions no. 293/2004 as on 31 October 2004 and supplement no. 168/2005 as on 31 December 2004. Revision of these expert's opinions resulted in a finding that general asset value determined by the expert for the purpose of a non-monetary investment into the newly established successor Company included also VAT. In the majority of cases the values including VAT were used also to measure the assets when IFRS were applied for the first time as of 1 January 2006, which resulted in an overvaluation of the assets.

On these grounds a reconstruction of the assets list was carried out, resulting in decrease of the residual values of assets as on 1 January 2011 in the amount of EUR 40,702 thousand (as of 1 January 2010 in the amount of EUR 43,651), which means an impairment of assets in their acquisition price as at 1 January 2010 in the amount of EUR 59,949.

At the same time, the Company recognised deferred tax which represented a deferred tax liability as at 1 January 2010 in the amount EUR 7,932 thousand, which had not been recognised before.

Impact of these transactions is retrospectively incorporated in accordance with IAS 8 already in the opening balance as at 1 January 2010. The following tables sum up the changes in individual items of the Statement of Financial Position and Statement of Comprehensive Income affected by these modifications, which are presented in these Financial Statements as "modified".

Statement of Financial Position as at 1 January 2010:

in thousand EUR	1 January 2010 before modification	Influence of VAT	Influence of deferred tax	1 January 2010 modified
ASSETS				
Long-term tangible assets	524,460	-43,621	0	**480,839**
Investments into real estates	680	-27	0	**653**
Long-term intangible assets	6,467	-3	0	**6,464**
Total influence on assets		**-43,651**	**0**	
EQUITY AND LIABILITIES				
Shareholders' equity				
Share capital	**212,441**	0	0	**212,441**
Statutory reserve fund	**20,912**	0	0	**20,912**
Other funds	**26,327**	-59,949	0	**-33,622**
Unpaid loss	**-45,951**	16,297	-7,932	**-37,586**
Profit / (loss) in the reporting period	**27,151**	0	0	**27,151**
Influence on equity		**-43,651**	**-7,932**	
Deferred tax	0	0	7,932	**7,932**
Total influence on equity and liabilities		**-43,651**	**0**	

Statement of Financial Position as at 1 January 2011:

in thousand EUR	1 January 2011 before modification	Influence of VAT	Influence of deferred tax	1 January 2011 modified
ASSETS				
Long-term tangible assets	566,013	-40,593	0	**525,420**
Investments into real estates	679	-26	0	**653**
Long-term intangible assets	4,895	-4	0	**4,891**
Held-for-sale assets	504	-79	0	**425**
Total influence on assets		**-40,701**	**0**	
EQUITY AND LIABILITIES				
Shareholders' equity				
Share capital	**212,441**	0	0	**212,441**
Statutory reserve fund	**23,627**	0	0	**23,627**
Other funds	**26,327**	-59,949	0	**-33,622**
Unpaid loss	**-21,515**	16,297	-7,929	**-13,147**
Profit / (loss) in the reporting period	**4,908**	2,950	-2,602	**5,256**
Influence on equity		**-40,701**	**-10,531**	
Deferred tax	0	0	10,531	**10,531**
Total influence on equity and liabilities		**-40,701**	**0**	

Statement of Comprehensive Income for the year ending on 31 December 2010:

in thousand EUR	As at 31 December 2010 before modification	Influence of VAT	Influence of deferred tax	As at 31 December 2010 – modified*
Depreciation, amortisation and impairment of tangible assets	-48,848	2,950	0	**-45,898**
Tax costs	0	0	-2,602	**-2,602**
Influence on total comprehensive income		**2,950**	**-2,602**	

3 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

a) Presentation currency

The functional and presentation currency of the Company is EUR which became the official currency of the Slovak Republic on 1 January 2009 when it replaced the Slovak koruna which had been the functional and presentation currency of the company before that date. The change of the functional currency was carried out prospectively as of 1 January 2009 and all assets, liabilities and equity of the Company were converted into EUR according to the official conversion rate of EUR 1 = SKK 30.1260.

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 Profit and Loss Statement. 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. Also, in case of a general overhaul, its value is reported in the acquisition price as tangible assets, if the reporting criteria are met.
Repairs and maintenance are reported in the Profit and Loss Statement as costs of the accounting 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.
A tangible asset is disposed of if sold, or if no future economic benefit is 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.
If necessary, the residual values of assets, lifespan and methods are examined and adjusted at the end of each financial year.

c) Intangible assets

Intangible assets are reported in their acquisition prices after deduction of accumulated depreciation and accumulated impairment.
Assets are depreciated evenly during their lifespan (2-5 years).
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.
If necessary, the residual values of intangible assets, lifespan and methods are examined and adjusted at the end of each financial year.

d) Long-term assets held for sale

Long-term assets and groups to be disposed of and classified as held for sale are measured in the lower of carrying amount or 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 is 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 classification date.

Real estates, plants and equipment and intangible 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. 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. Adjustments are created for old, obsolete and slow-moving inventories in order to reduce them to net realisable value.

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 the assets is the higher value of the fair value of assets or a cash-generating unit reduced by costs on sale and the value in use, and is determined for individual items of assets only when the asset in question does not generate increase in financial means which are usually independent of increase 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. Afterwards, 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.

g) Financial assets

Initial recognition and measurement
Financial assets within the scope of IAS 39 are classified as financial instruments measured in fair value with changes reported into profit or loss, loans and receivables, investments held to maturity, financial assets held for sale and hedging derivative instruments. The Company determines classification of individual financial assets when initially recognised.

At initial recognition, financial assets are measured in their fair value which – to the exception of financial assets measured in their fair value with changes reported into profit or loss – is increased by costs directly related to acquisition of the financial asset.

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

Subsequent measurement
Subsequent measurement of financial assets depends on their classification and is carried out as follows:

Financial assets measured in their fair value with changes reported into profit or loss
Financial assets in their fair value with changes reported into profit or loss mean the financial assets held for trading and financial assets measured in their fair value at initial recognition with changes reported into the comprehensive income or loss. Financial assets are classified as held for sale in case they were bought for the purpose of further sale in the near future. This category of financial assets also includes financial derivatives invested into the Company that do not fulfil the conditions of hedging instruments as defined by IAS 39. Derivatives are also classified as held for sale only if they represent hedging instruments. Financial assets measured in their fair value with changes reported into comprehensive income or loss are presented in the balance sheet in their fair value, and the profit or loss from such financial instruments is reported within the Profit and Loss Statement.

Loans and receivables
Loans and receivables represent non-derivative financial assets with fixed or variable payments that are not quoted on active market. At initial recognition, loans and receivables are reported in their amortised value by effective interest rate method, reduced by an allowance. 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. Profit and loss are reported in profit/loss of the accounting period in case loans and receivables are derecognised or impaired, as well as when in the amortisation process.

Investments held to maturity
Investments held to maturity are non-derivative financial assets with fixed or variable payments, with fixed maturity, which the Company intends and is able to hold until their maturity. When initially recognised, investments held to maturity are measured in amortised costs. These costs are calculated as the value, in which the financial asset was measured at initial recognition reduced by instalments of the principal and increased or decreased by effective interest rate method, by cumulative amortisation of the difference between the initially recognised value and the value at maturity, and further reduced by an allowance. This calculation includes all fees and interests paid or received between the parties to the contract which are an inseparable part of the effective interest rate, transaction costs and all bonuses and discounts. Profit and loss is reported in profit/loss of the accounting period in case the investments are derecognised or impaired, as well as when in the amortisation process.

Financial assets held for sale
Financial assets held for sale are those non-derivative financial assets that are classified as held for sale or that are not classified in any of the three previous categories. At initial recognition the financial assets held 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.

When initially recognised, financial assets held for sale are measured pursuant to the existing market conditions and the intention of the management to hold them for a foreseeable period. In rare cases when these conditions become unsuitable, the Company may decide to reclassify such financial assets into loans and receivables or investments held to maturity if compliant with the respective IFRS.

Impairment of financial assets
At the end of each reporting period the Company assesses whether there is objective evidence of impairment of financial

assets or a group of financial assets. Financial assets or a group of financial assets are considered impaired if there is objective evidence based on one or several events that occurred after the initial recognition of the asset (a “loss event”) and when such loss event affects the expected future cash flows of financial assets or a group of financial assets, and which can be reliably estimated. Evidence on impairment may include indications about a debtor or a group of debtors having substantial financial difficulties, being unable to pay, repeatedly failing to pay interests or principal, probability that a partner is to go bankrupt or start a financial reorganisation, and when the discovered information indicate that there is a measurable decline in future expected cash flow, as well as subsequent changes or economic conditions indicating inability to pay.

Assets measured in amortised costs
At first the Company assesses significant financial assets individually whether there is objective evidence of impairment, and subsequently assesses individually or as a whole those financial assets that are not individually significant. In case the Company assessment leads to a conclusion that there is no evidence on impairment of financial assets, whether significant or insignificant, such financial asset is included into the group of financial assets with a similar risk which is assessed as a whole for impairment. Assets that were individually assessed for impairment and for which impairment loss was reported are not included into impairment assessment as a whole.

If there is objective evidence that assets measured in amortised costs were impaired, the amount of impairment loss is determined as the difference between their carrying amount and present value of the estimated future cash flows (with the exception of future expected credit losses) discounted by interests pursuant to the original effective interest rate for the given financial asset (i.e. the effective interest rate used at initial recognition). In case a loan has a variable interest rate, the discount rate to determine the impairment amount is the present effective interest rate.

The carrying amount of the asset is reduced through the account of allowances and the impairment amount is reported in the Profit and Loss Statement. The yield of interest is reported on the basis of the reduced carrying amount and pursuant to the interest rate which was used to discount future cash flows for the purposes of the asset impairment calculation. The yield of interest is reported as a part of financial income in the Profit and Loss Statement. Loans, together with reported allowances, are written off in case there is no real change of their future payment and all securing was realised or transferred to the Company. If in the subsequent year the amount of expected and previously reported 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 loans that were written-off are paid, the payment is reported in the Profit and Loss Statement.
The present value of the future expected cash flows is discounted by the original effective interest rate. If a loan has a variable interest rate, the discount rate for impairment measurement is the present effective interest rate.

Financial assets held for sale
If a financial asset held for sale is impaired, the difference of its acquisition price (after deducting any principal instalments and amortisation) and its present fair value reduced by previous impairment losses reported into Profit and Loss Statement, from equity is reported into Profit and Loss Statement. Impairment losses created in relation to equity instruments that are classified as held for sale are not derecognised retrospectively. Cancellation of an impairment loss concerning debt instruments classified as available for sale are reported in the Profit and Loss Statement if the increase of the fair value of such an instrument may objectively be attributable to an event which occurred after the impairment loss was reported in the Profit and Loss Statement.

Derecognition of financial assets
A financial asset (or a part of a financial asset or a group of similar financial assets) is derecognised if:
- the right to receive cash flows from the asset expired,
- the Company transferred its right to cash flows from the asset, or undertook a liability to pay the received cash flows in full without a significant delay to an independent third party and (a) the Company transferred in fact all risks and benefits from the asset, or (b) the Company did not transfer or keep in fact all risks and benefits related to the asset but transferred the control over the asset to an independent third party.

h) Financial liabilities

Initial recognition and measurement
Financial liabilities within the scope of IAS 39 are classified as financial liabilities measured in fair value with changes reported as profit or loss, loans and borrowings, or as derivative liabilities meant as effective hedge. The Company classifies a financial liability when initially recognised.

At initial recognition, financial liabilities are measured in their fair value, and loans and borrowings are measured in the fair value of the received consideration after deducting the costs incurred on the transaction.

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

Subsequent measurement
Measurement of financial liabilities depends on their classification:

Financial liabilities measured in their fair value with changes reported into profit or loss
Financial liabilities measured in their fair value with changes reported into profit or loss include financial liabilities held for trading and financial liabilities held for reporting changes in their fair value into profit or loss at initial recognition.

Financial liabilities are classified as held for trading if they were acquired for the purpose of sale in the near future. This category includes financial derivatives acquired by the Company, which do not meet the conditions for reporting of financial derivatives pursuant to IAS 39. Profit and loss from liabilities held for trading is reported in the Profit and Loss Statement.

Loans and financial aid
All loans and borrowings 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 residual price by the effective interest rate method. Profit and loss is reported net in the Profit and Loss Statement after derecognition of liabilities, as well as during amortisation, except for cases when they are capitalised as costs on loans and borrowings.

The amortised residual price is calculated by taking into account all costs and discounts or bonuses of the settlement. Amortisation by the effective interest rate is reported under financial costs in the Profit and Loss Statement.

Trade liabilities and other liabilities
Trade liabilities and other liabilities are reported and measured in amortised costs, i.e. in the originally invoiced amount. The Company determines estimates of costs, for which it has not received an invoice by the end of the reporting period. An invoiced interest on overdue payment is reported under trade liabilities.

Financial guaranties
Financial guaranties issued by the Company mean contracts requiring performance to the benefit of the holder, in the amount of loss the holder incurs, in case a certain debtor fails to pay when obliged to do so in compliance with the conditions of the debt instrument. Financial guaranties are initially recognised as liabilities in fair value adjusted by transaction costs that may be directly attributable to guaranty issuance. Subsequently, the liabilities are measured in higher of the best estimate of costs on settlement of the present liability on the balance-sheet date and the amount reported when initially recognised reduced by cumulative debt redemption.

Derecognition of financial assets
A financial asset is derecognised in case such liability is settled or cancelled or its validity ceased.

If an existing financial liability is replaced by another liability towards the same debtor under substantially different conditions or, if the existing liability is significantly changed, such replacement or change is reported as derecognition of the original liability and recognition of a new liability, while the difference in the respective carrying amounts is reported in the Profit and Loss Statement.

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) Financial derivatives

The Company owns financial derivatives as a hedge against currency and 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 in the fair value, while the changes in fair value are reported as net profit in the ordinary period.

Hedge
Hedge accounting reports impacts of elimination of changes in fair values of a hedging instrument and hedging items in profit/loss during the accounting period. For reporting purposes, hedges are classified as:

- fair value hedges,
- cash flow hedges.

At the beginning, the Company formally determines and documents a hedge to a relationship, for which it intends to use such hedge, as well as objectives for risk management and strategy of hedge implementation. The documentation includes identification of the hedging instrument, hedged item or transaction, nature of hedged risk, and the manner, in which the Company will assess the efficiency of the hedging instrument when eliminating the exposure to changes in fair value or cash flows of the hedged item which are attributable to the hedged risk. Such hedge is expected to be highly efficient in eliminating changes in fair value or cash flows attributable to the hedged risk, and is continuously assessed in order to prove

that it is indeed highly efficient for all periods of financial reporting, for which the hedge was specified.
Hedges which meet the strict criteria of hedge accounting are reported as follows:

Fair value hedges
Fair value hedge is a hedge against exposure of the Company to changes in fair value of a reported asset or liability, or unreported fixed liability, or an identified share in such asset, liability or unreported fixed liability which is attributable to a concrete risk and may affect the profit/loss of the accounting period.

Profit or loss from re-measurement of a hedging instrument in fair value (in case of a derivative hedging instrument) or a foreign currency component to its carrying amount measured in compliance with IAS 21 (for a non-derivative hedging instrument) is reported in profit/loss of the accounting period. Profit or loss from a hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is reported in profit/loss of the accounting period. The same approach is taken in case the hedged item is a financial asset held for sale.

Adjustment of the carrying amount of a hedged financial instrument, for which the efficient interest rate method is used, is amortised through profit/loss during the period remaining to maturity of the financial instrument. Amortisation may start immediately after the beginning of adjustment and must not start sooner than the hedged item ceases to be adjusted by changes in its fair value attributable to the hedged risk.

If an unreported fixed liability is designated as a hedged item, the subsequent cumulative change in its fair value attributable to the hedged risk is reported as an asset or liability together with the respective profit or loss in profit/loss of the accounting period. Also changes in fair value of the hedging instrument are reported in profit/loss of the accounting period.
The Company discontinues fair value hedge accounting in case it expires as a hedging instrument, the hedging instrument is reclassified, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Company revokes the designation.

Cash flow hedge
Cash flow hedge is a hedge of exposure of the Company to the variability of cash flow that is attributable to a particular risk associated with a recognised asset or liability or o highly probable forecast transaction, and which could affect profit/loss in the accounting period.

The share of profit or loss from a hedging instrument that was designated as an effective hedge is reported in the last comprehensive income. Ineffective share of profit or loss from a hedging instrument is reported in the profit/loss of the accounting period.

If a hedge of the forecast transaction subsequently leads to recognition of a financial asset or a financial liability, the associated profit or loss reported in the last comprehensive income is re-classified from the last comprehensive income into profit/loss óf the accounting period in the same period or periods, during which the acquired asset or received liability affects profit/loss of the accounting period. If the hedge of a forecast transaction leads to recognition of a non-financial asset or a non-financial liability, or the forecast transaction becomes a fixed liability for a non-financial asset or a non-financial liability, to which fair value hedge is applied, associated profit and loss reported in the last comprehensive income is taken into initial acquisition price or other carrying amount of the non-financial asset or liability.

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 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) 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 designated as effective hedging financial instruments are classified in compliance with the classification of the underlying hedged item. A derivative instrument is divided into short-term and long-term part only if it is possible to divide it reliably.
- 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 register, 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, financial means and financial equivalents mean those 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 on 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 schedules 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 schedule via the projected unit credit method, where costs incurred on employee benefits are reported in the Profit and Loss Statement so as to distribute them during the period of employment in the Company. The liability from employee benefits is determined as present value of forecast 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 schedules with fixed benefits are reported as revenues and costs during the average remaining period of service of respective employees.

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 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 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 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 when 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 against Profit and Loss Statement.
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 costs are capitalised until the asset is prepared for its intended use. Costs on received borrowings and loans consist 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:

- State subsidies to compensate costs of services in the public interest based on the Contract for Passenger Rail Transport Services concluded with the Slovak Republic represented by MTCRD. 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 the Slovak Republic represented by MTCRD decided to cover them.
- subsidies related to acquisition of long-term assets (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 Profit and Loss Statement, 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 (and tax acts) enacted as on the balance-sheet date.

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 reported in case of all deductible temporary differences, transfer of unused tax loans and unused tax losses in the extent, in which it is probable that taxable profit will enable to redeem these deductible temporary differences, transferred unused tax loans and unused tax losses.

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

in thousand EUR	Lands and buildings	Plants, equipment and other assets	Unfinished investments	Provided pre-payments	Total
Acquisition price					
As at 1 January 2011 – modified*	**11,721**	**629,072**	**1,172**	**28,142**	**670,107**
Additions	67	119,420	6,907	5,384	131,778
Disposals	194	2,805	0	0	2,999
Transfers	0	14,920	-1,155	-13,765	0
As at 31 December 2011	**11,594**	**760,607**	**6,924**	**19,761**	**798,886**
Cumulated adjustments					
As at 1 January 2011 – modified*	**778**	**143,910**	**0**	**0**	**144,688**
Additions	298	52,446	0	0	52,744
Disposals	42	2,356	0	0	2,398
Impairment loss	3	1	0	0	4
As at 31 December 2011	**1,037**	**194,001**	**0**	**0**	**195,038**
Residual value as at 31 December 2011	**10,557**	**566,606**	**6,924**	**19,761**	**603,848**

in thousand EUR	Lands and buildings	Plants, equipment and other assets	Unfinished investments	Provided pre-payments	Total
Acquisition price					
As at 1 January 2010 – modified*	**11,495**	**542,843**	**3,894**	**27,628**	**585,860**
Additions	226	90,437	88,575	24,421	203,659
Disposals	1	4,209	91,297	23,906	119,413
As at 31 December 2010 – modified*	**11,720**	**62,071**	**1,172**	**28,143**	**670,106**
Cumulated adjustments					
As at 1 January 2010 – modified*	**491**	**104,951**	**0**	**0**	**105,442**
Additions – modified*	285	40,953	0	0	41,238
Disposals	0	1,909	0	0	1,909
Impairment loss	0	55	0	0	55
As at 31 December 2010	**776**	**143,910**	**0**	**0**	**144,686**
Residual value as at 31 December 2010 – modified*	**10,944**	**485,161**	**1,172**	**28,143**	**525,420**

**Modified in compliance with IAS 8. Details under Note 2.4.*

The category of lands and buildings includes administrative buildings, customer centres, dressing rooms for train crews, rotunda and yard of the Tatra Electric Railway (TEŽ) together with underground services. The most important item in the category of plants, equipment and other assets is rolling stock in the amount of EUR 560,299 thousand. 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.

The most important items of unfinished investments are acquisition of IT technology for iKCV (electronic ticket-sale system) in the amount of EUR 1,637 thousand and acquisition of the diesel multiple unit no. 3 in the amount of EUR 4,414 thousand, which is part of the OP Transport.

As at 31 December 2011, the Company management carried out a comprehensive test for asset impairment where the Company as a whole was considered a single money-generating unit. Based on the comprehensive test, the Company found no asset impairment. The test included examination of the condition and use of assets, which resulted in reporting of asset impairment in the amount of EUR 4 thousand as unused assets. Its recoverable amount was determined as selling / scraping price reduced by costs related on sale of the given assets, when the usable value was determined as zero or close to zero.

The manner and value of long-term assets insurance

in thousand EUR Insured assets and insurance company	Total sum insured	Term of the Agreement from - to	Premium paid in	
			2011	2010
Insurance policy on assets – fuelling stations no.: 8- 863-000468, QBE – Supplement no. 1 to the insurance policy	7	01.01.2011 - 31.12.2011	7	7
Kooperatíva – insurance of motive power units for consequences of failures and damage to whole units or destruction of whole units or motive power units – insurance of machines and accident insurance 6552737745/80 8009199	22,974	01.03.2009 - 28.2.2013		
Supplement no. 1 to the Insurance policy on motive power units no.:6552737745/ 80 8009199	12,928	Premium for the 1st period from 1 March 2009 to 28 February 2013	2,951	2,996

Change in estimates

As at 1 January 2011 the Company management re-measured the lifespan and usability of rolling stock. The change in the estimate was based on expected remaining useful life of rolling stock when taking into account the present market environment. The effect of changes on costs on depreciation reported in the current period and future periods is as follows

in thousand EUR	2011	2012	2013	2014	2015	Later
Changes in costs on depreciation	**-6,801**	**-6,186**	**-3,499**	**-1,804**	**-1,738**	**20,028**

The Company reported assets in the amount of EUR 423 thousand (EUR 425 thousand as at 31 December 2010) as assets held for sale which are measured in their carrying amount or fair value reduced by costs related to sale.

5 LONG-TERM INTANGIBLE ASSETS

in thousand EUR	Intangible assets	Unfinished investments	Provided pre-payments	Total
Acquisition price				
As at 1 January 2011 – modified*	**12,112**	**161**	**0**	**12,273**
Additions	449	1,402	0	1,851
Disposals	456	0	0	456
Transfers	161	-161	0	0
As at 31 December 2011	**12,266**	**1,402**	**0**	**13,668**
Cumulated adjustments				
As at 1 January 2011 – modified*	**7,381**	**0**	**0**	**7,381**
Additions	2,582	0	0	2,582
Disposals	302	0	0	302
As at 31 December 2011	**9,661**	**0**	**0**	**9,661**
Residual value as at 31 December 2011	**2,605**	**1,402**	**0**	**4,007**

in thousand EUR	Intangible assets	Unfinished investments	Provided pre-payments	Total
Acquisition price				
As at 1 January 2010 – modified*	**11,029**	**423**	**0**	**11,452**
Additions	764	24	190	978
Disposals	158	0	0	158
Transfers	476	-286	-190	0
As at 31 December 2010 – modified*	**12,111**	**161**	**0**	**12,272**
Cumulated adjustments				
As at 1 January 2010 – modified*	**4,988**	**0**	**0**	**4,988**
Additions – modified*	2,458	0	0	2,458
Disposals	65	0	0	65
As at 31 December 2010 – modified*	**7,381**	**0**	**0**	**7,381**
Residual value as at 31 December 2010 – modified*	**4,730**	**161**	**0**	**4,891**

**Modified in compliance with IAS 8. Details under Note 2.4.*

The most important item in the category of intangible assets was iKVC software in the amount of EUR 1,316 thousand for sale and reservation of tickets for passengers. Further items include licenses of Microsoft and SAP EIS.

The most significant items of unfinished investments were procurement of SAP license and license on iKVC protection software in the amount of EUR 561 thousand and EUR 362 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 at 31 December 2011	as at 31 December 2010
Eurofima	1,300	0.50 %	5,014	4,874
BCC	1	0.68 %	1	1
Total			**5,015**	**4,875**

7 OTHER LONG-TERM ASSETS

in thousand EUR	31 December 2011	31 December 2010
Receivables from financial derivatives (note 16)	**918**	**6,348**
Trade receivables	**724**	**536**
Other long-term receivables	**16**	**7**
Total	**1,658**	**6,891**

8 INVENTORIES

	Acquisition price	(the lower of) acquisition value, or net recoverable value	Acquisition price	(the lower of) acquisition value, or net recoverable value
in thousand EUR	**2011**	**2011**	**2010**	**2010**
Stored material	**3,020**	**3,012**	**2,182**	**2,182**
Fuel in tank	**215**	**215**	**163**	**163**
Other inventories	**13**	**13**	**11**	**11**
Total inventories	**3,248**	**3,240**	**2,356**	**2,356**

No right of lien was established regarding the procured inventories.

9 TRADE RECEIVABLES AND OTHER RECEIVABLES

in thousand EUR	31 December 2011	31 December 2010
Short-term trade receivables	**15,050**	**13,018**
Tax receivables	**13,433**	**8,651**
Other receivables	**3,650**	**2,984**
	32,133	**24,653**
Adjusting entries to trade receivables and other receivables	**-1,603**	**-180**
	30,530	**24,473**

Receivables after maturity amounted to EUR 1,859 thousand as on 31 December 2011 (EUR 1,168 thousand as on 31 December 2010). Trade receivables are interest-free and in general payable within 14 – 90 days.
Information on receivables from related parties is stated under note 31.

Analysis of the age structure as at 31 December is as follows:

Year	Total	Within maturity and without an adjusting entry	After maturity and without an adjusting entry			
			< 180 days	180-270 days	270-365 days	> 365 days
2011	**32,133**	30,274	558	18	55	1,228
2010	**24,653**	23,485	152	711	11	294

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 2011	31 December 2010
Financial means in cash register and financial equivalents	192	470
Financial means in banks	20,085	599
Total	**20,277**	**1,069**

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.

Bank overdrafts as at 31 December are as follows:

	31 December 2011		31 December 2010	
in thousand EUR	Maximum limit	Drawing	Maximum limit	Drawing
Tatra banka, a.s.	5,000	**4,995**	10,000	**9,987**
UniCredit Bank Slovakia,a.s.	38,000	**33,329**	38,000	**29,544**
Všeobecná úverová banka, a.s.	5,000	**4,936**	5,000	**4,925**
Československá obchodná banka, a.s.	25,000	**24,985**	25,000	**24,925**
Volksbank, a.s.	7,000	**2**	7,000	**29**
Dexia banka Slovensko, a.s.	-	**-**	10,000	**9,928**
Slovenská sporiteľňa, a.s.	-	**-**	3,000	**2,709**
	80,000	**68,246**	98,000	**82,047**

11 EQUITY

Share capital
Share capital is formed by a state investment in the Company administered by MTCRD as a deposit of certain assets and liabilities of the predecessor company - ŽS, containing 64 pieces of registered ordinary shares in the nominal value of one share of EUR 3,319,391.8874. 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 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 2011 (retrospectively as at 1 January 2010) they were reduced by EUR 59,949 thousand to correct an error in the initial measurement of the asset invested by the founder and identified in 2011 (more details under note 2.4).

Distribution of accounting profit of the previous reporting period
Distribution of the accounting profit of 2010 before modification in the amount of EUR 4,908 thousand was approved by the General Assembly of the Company on 6 June 2011 as follows:

- Contribution to the statutory reserve fund	EUR 491 thousand
- Reduction of loss of the previous years	EUR 4,417 thousand

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 securing which ceases to exist by full settlement of the financial aid. The Slovak Republic undertook to repay the financial aid to EUROFIMA in compliance with the "EUROFIMA Treaty" ratified by the Slovak Government.

As at 31 January 2011:

in thousand EUR	Currency	Amount	Maturity	Hedging
Eurofima III (Contract no. 2574)	EUR	10,000	11.2.2013	Rolling stock
Eurofima IV (Contract no. 2593)	EUR	15,000	4.2.2014	Rolling stock
Eurofima V (Contract no. 2616)	EUR	10,000	4.2.2014	Rolling stock
Eurofima VI (Contract no. 2651)	EUR	30,000	6.3.2015	Rolling stock
Eurofima VII.A (Contract no. 2670)	EUR	8,000	7.4.2016	Rolling stock
Eurofima VII.B (Contract no. 2694)	EUR	8,600	3.4.2017	Rolling stock
Eurofima VIII.A (Contract no.2718)	EUR	14,000	3.4.2017	Rolling stock
Eurofima VIII.B (Contract no.2731)	EUR	13,000	29.9.2020	Rolling stock
Eurofima IX. A (Contract no. 2753)	EUR	11,106	29.9.2020	Rolling stock
Eurofima IX. B (Contract no. 2753)	EUR	7,244	27.2.2012	Rolling stock
Total		**126,950**		
Short-term part		**7,244**		
Long-term part		**119,706**		

As at 31 January 2010:

in thousand EUR	Currency	Amount	Maturity	Hedging
Eurofima I. (kontrakt č. 2535)	EUR	6,500	22.8.2011	Rolling stock
Eurofima II. (kontrakt č. 2551)	EUR	6,500	22.8.2011	Rolling stock
Eurofima III. (kontrakt č. 2574)	EUR	10,000	11.2.2013	Rolling stock
Eurofima IV. (kontrakt č. 2593)	EUR	15,000	4.2.2014	Rolling stock
Eurofima V. (kontrakt č. 2616)	EUR	10,000	4.2.2014	Rolling stock
Eurofima VI. (kontrakt č. 2651)	EUR	30,000	6.3.2015	Rolling stock
Eurofima VII.A (kontrakt č. 2670)	EUR	8,000	7.4.2016	Rolling stock
Eurofima VII.B (kontrakt č. 2694)	EUR	8,600	3.4.2017	Rolling stock
Eurofima VIII.A (kontrakt č.2718)	EUR	14,000	3.4.2017	Rolling stock
Eurofima VIII.B (kontrakt č.2731)	EUR	13,000	29.9.2020	Rolling stock
Eurofima IX. A (kontrakt č. 2753)	EUR	11,106	29.9.2020	Rolling stock
Eurofima IX. B (kontrakt č. 2753)	EUR	7,244	27.2.2012	Rolling stock
Total		**139,950**		
Short-term part		**13,000**		
Long-term part		**126,950**		

All financial aid bears interest at variable interest rate in the scope from 1.031% p.a. to 1.739 % (from 0.659 % p.a. to 1.142 % p.a. in 2010).

13 INTEREST-BEARING LOANS AND BORROWINGS

As at 31 December 2011:

	Currency	Amount in foreign currency	Amount in thousand EUR	Maturity	Hedging
Long-term loans					
Tatra banka, a.s.	EUR		784	31.12.2018	No hedging
ČSOB, a.s.	EUR		13,047	31.10.2017	No hedging
ING Bank, a.s.	EUR		19,164	31.12.2015	No hedging
Total			**32,994**		
Short-term part of loans and borrowings			**4,791**		
Long-term part of loans and borrowings			**28,204**		

	Currency	Amount in foreign currency	Amount in thousand EUR	Maturity	Hedging
Short-term loans					
UBS AG 6	CHF	2,822	2,321	31.8.2012	SERG
ČSOB, a.s.	EUR		151	29.6.2012	No hedging
ČSOB, a.s.	EUR		581	31.1.2012	No hedging
ČSOB, a.s.	EUR		240	16.4.2012	No hedging
Tatra banka, a.s.	EUR		18,200	2.1.2012	No hedging
UniCredit Bank, a.s.	EUR		42,000	2.1.2012	No hedging
VÚB, a.s.	EUR		20,000	2.1.2012	No hedging
VÚB, a.s.	EUR		55,000	2.1.2012	No hedging
Short-term loans			**138,493**		
Short-term part of loans and borrowings (see above)			**4,791**		
Bank overdrafts (note 10)			**68,246**		
Total			**211,530**		

All loans are in EUR, unless stated otherwise in the table.

Some loan contracts include also an obligation of the Company to fulfil certain financial and non-financial indicators. As at 31 December 2011 the Company meets the indicator of financial indebtedness as well as equity ratio indicator (equity + other deferred liabilities/ total equity and liabilities).
The fair value of interest-bearing loans and borrowings in EUR 239,734 thousand (EUR 198,031 thousand as on 31 December 2010).

All loans and borrowings bear interest at variable interest rate in the scope from 1.629% p.a. to 3.465 % (from 1.268. % p.a. to 3.427 % p.a. in 2010).

As at 31 December 2010

	Currency	Amount in foreign currency	Amount in thousand EUR	Maturity	Hedging
Long-term loans					
UBS AG 6	CHF	2,822	2,257	31.8.2012	SERG
Dexia banka Slovensko, a.s.	EUR		16,213	23.8.2012	No hedging
Total			**18,470**		
Short-term part of loans and borrowings			**4,000**		
Long-term part of loans and borrowings			**14,470**		

	Currency	Amount in foreign currency	Amount in thousand EUR	Maturity	Hedging
Short-term loans					
UBS AG 6	CHF	2,822	2,257	31.8.2011	SERG
UBS AG 14	CHF	4,075	3,259	27.10.2011	SERG
UniCredit Bank, a.s.	EUR		22,000	8.7.2011	No hedging
VÚB, a.s.	EUR		20,000	30.6.2011	No hedging
VÚB, a.s.	EUR		50,000	15.6.2011	No hedging
Short-term loans			**97,516**		
Short-term part of loans and borrowings (see above)			**4,000**		
Bank overdrafts (note 10)			**82,047**		
Total			**183,561**		

14 EMPLOYEE BENEFITS

in thousand EUR	Bonuses at retirement	Contributions at life anniversaries	Compensatory contribution in case of invalidity	Total
As at 1 January 2011	5,173	1,489	306	6,968
Costs on present services	192	148	76	416
Interest costs	259	74	15	348
Actuarial profit and loss	169	58	0	227
Paid benefits	-329	-146	-50	-525
Costs on past services	1	-87	0	-86
As at 31 December 2011	**5,465**	**1,536**	**347**	**7,348**
Short-term as at 31 December 2011	338	166	50	554
Long-term as at 31 December 2011	5,127	1,370	297	6,794
As at 31 December 2011	**5,465**	**1,536**	**347**	**7,348**

in thousand EUR	Bonuses at retirement	Contributions at life anniversaries	Compensatory contribution in case of invalidity	Total
As at 1 January 2010	4,496	1,234	244	5,974
Costs on present services	120	38	13	171
Interest costs	243	67	13	323
Actuarial profit and loss	-473	-92	0	-565
Paid benefits	-405	-140	-42	-587
Costs on past services	1,192	382	78	1,652
As at 31 December 2010	**5,173**	**1,489**	**306**	**6,968**
Short-term as at 31 December 2010	300	157	46	503
Long-term as at 31 December 2010	4,873	1,332	260	6,465
As at 31 December 2010	**5,173**	**1,489**	**306**	**6,968**

Main actuarial assumption:

	2011	2010
Discount rate (% p.a.)	5.0 %	5.4 %
Increase of wages (%)	3.5 %	0 %
Probability of male mortality (%)	0.036% - 2.4250%	0.036% - 2.4250%
Probability of female mortality (%)	0.0185% - 0.9132%	0.0185% - 0.9132%

15 RESERVES

in thousand EUR	Environmental burdens	Lawsuits	Redundancy payment, severance payment	Total
As at 1 January 2011	**176**	**1,217**	**3,401**	**4,794**
Additions	0	411	363	774
Interest costs	0	0	170	170
Written-off	0	-1,143	0	-1,143
Use	-128	-74	-852	-1,054
As at 31 December 2011	**48**	**411**	**3,082**	**3,541**
Short-term as at 31 December 2011	48	191	1,116	1,355
Long-term as at 31 December 2011	0	220	1,966	2,186
As at 31 December 2011	**48**	**411**	**3,082**	**3,541**

in thousand EUR	Environmental burdens	Lawsuits	Redundancy payment, severance payment	Total
As at 1 January 2010	**282**	**1,488**	**1,573**	**3,343**
Additions	0	0	2,031	2,031
Interest costs	0	0	85	85
Written-off	0	-210	0	-210
Use	-106	-61	-288	-455
As at 31 December 2010	**176**	**1,217**	**3,401**	**4,794**
Short-term as at 31 December 2010	176	0	1,858	2,034
Long-term as at 31 December 2010	0	1,217	1,543	2,760
As at 31 December 2010	**176**	**1,217**	**3,401**	**4,794**

Lawsuits
Reserves on lawsuits concern several legal claims. In 2011 the Company revaluated the reserve created for a passive commercial lawsuit with the company DayGroup which was overruled by the judge in the course of 2011 without any possibility of appeal. As on 1 January 2011 the reserve amounted to EUR 1,217 thousand, of which EUR 74 thousand was used in 2011 for costs related to legal services and the balance of the reserve in the amount of EUR 1,143 thousand was written off.

16 FINANCIAL DERIVATIVES

As at the day of book closing (i.e. 31 December), 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 Reuters information system. Expected cash flows were determined either by using calculation of forward interest rates or by stochastic simulation of market variables.

Creditor	Derivative	Measurement as at 31 December 2011		Measurement results	
		receivable	liability	receivable	liability
CALYON	EUROFIMA VI	2,695	-36,429	0	-33,734
CALYON	EUROFIMA VII A	1,001	-4,440	0	-3,439
VÚB	EUROFIMA VII B	900	18	918	0
NOMURA	EUROFIMA VI / IRIS	37,695	-40,954	0	-3,258
	Total	**42,291**	**81,805**	**918**	**-40,431**

Creditor	Derivative	Measurement as at 31 December 2010		Measurement results	
		receivable	liability	receivable	liability
DEXIA	EUROFIMA IV	956	-1,176	0	-219
DEXIA	EUROFIMA V	638	-789	0	-152
CALYON	EUROFIMA VI	2,695	-40,129	0	-37,434
CALYON	EUROFIMA VII A	1,001	-5,161	0	-4,161
VÚB	EUROFIMA VII B	1,386	18	1,403	0
NOMURA	EUROFIMA VI / IRIS	45,898	-40,954	4,944	0
	Total	**52,573**	**88,192**	**6,348**	**-41,966**

17 OTHER LONG-TERM LIABILITIES

in thousand EUR	31 December 2011	31 December 2010
Deferred income in relation to investments from EU Structural Funds	**38,354**	**10,437**
Deferred income in relation to investments from the State Budget	**31,980**	**36,572**
Deferred income in relation to investments in combination of the State Budget and EU Structural Funds	**38,354**	**10,437**
Liabilities towards the social fund	**82**	**50**
Other receivables	**590**	**486**
	109,360	**57,982**

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

in thousand EUR	2011	2010
As at 1 January	**50**	**0**
Creation	467	471
Drawing	435	422
As at 31 December	**82**	**50**

18 TRADE LIABILITIES AND OTHER LIABILITIES

in thousand EUR	31 December 2011	31 December 2010
Trade liabilities	**90,959**	**60,189**
Short-term part of deferred income in relation to investments	**12,384**	**3,893**
Tax liabilities	**467**	**464**
	103,810	**64,546**

Short-term trade liabilities after maturity amounted to EUR 540 thousand as at 31 December 2011 (EUR 18 thousand as at 31 December 2010).
More detailed information on liabilities towards related parties is stated under note 31.

19 CONTINGENT LIABILITIES

Investment liabilities

Planned capital costs in the period from 1 January 2012 to 31 December 2013 are as follows:

in thousand EUR	31 December 2011	31 December 2010
Lands and buildings	**45,437**	**0**
Plants, equipment and other property	**8,749**	**236,318**
Intangible assets	**5,054**	**0**
	59,240	**236,318**

Out of the above amount the investment costs of EUR 50,491 (EUR 236,318 thousand in 2010) are bound by contracts.

Contingent liabilities

A lawsuit was filed with the District Court of Bratislava III against the Company, and secondly against Železničná spoločnosť Cargo Slovakia, a.s., as the legal successors of ŽSR and Železničná spoločnosť, a.s. concerning damages in the amount of EUR 82,775 with accessories jointly and severally. The complainant LANCILLON Limited (a legal predecessor was Martinská mechatronická, a.s.) justifies its claim by a breach of obligations resulting from the "Contract on constructing a prototype of a 755-series locomotive" of 6 November 1995 as amended by Supplements no. 1 and 2 , the "Contract for work concerning tests of the prototype of a 755-series locomotive" of November 1997, and the „Contract for 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 allegedly frustrated tests of the prototype by ŽSR and a subsequent failure to fulfil an alleged obligation to purchase 98 pieces of serially produced locomotives of 755-series from the complainant.

Based on an analysis, the Company management believes that the conduct of the complainant is unjustified because the complainant did not meet the contractual obligations resulting from individual contracts. Also opinions of several legal advisors confirmed that the lawsuit is unjustified and the probability of its success is very small; therefore, no reserve in these Financial Statements was created.

20 INCOME TAX

Tax base for this year is zero (2010 – zero). The following table presents approval of showed income tax and theoretical amount calculated by use of effective tax rates:

in thousand EUR	31 December 2011	31 December 2010
Profit / (loss) before taxation	**-15,765**	**5,256**
Tax at statutory tax rate of 19%	**-2,995**	**999**
Impact of tax loss that cannot be redeemed in the future	**1,663**	**3,084**
Non tax deductible costs	**1,332**	**-4,083**
Income tax	**-**	**-**

Deferred tax receivables and liabilities may be divided as follows:

in thousand EUR	31 December 2011	31 December 2010
Deferred tax receivables		
Unamortised tax loss	**14,869**	**14,259**
Employee benefits	**1,396**	**1,324**
Long-term receivables from PSO Contract	**1,011**	**1,562**
Redundancy payment, severance payment	**586**	**646**
Others	**119**	**135**
	17,981	**17,926**
Deferred tax liabilities		
Long-term tangible assets	**-28,795**	**-28,457**
Others	**-44**	**0**
	-28,839	**-28,457**
Net deferred tax liabilities	**-10,858**	**-10,531**

The Company reports unamortised tax loss from 2006-2011 in the amount of EUR 78,257 thousand. Pursuant to Slovak legislation the Company is entitled to redeem tax losses as at 31 December 2009 for five years against future taxable profits, and tax losses as at 31 December 2011 for seven years. Redemption will be as follows:

in thousand EUR	31 December 2011	31 December 2010
2011	**0**	**8,750**
2012	**15,703**	**15,703**
2013	**8,021**	**8,021**
2014	**21,724**	**21,724**
2017	**20,848**	**20,848**
2018	**11,961**	**-**
Total unredeemed tax loss	**78,257**	**75,046**

21 TRANSPORT OF PASSENGERS AND RELATED REVENUES

in thousand EUR	31 December 2011	31 December 2011
Passenger transport		
Passenger transport - national	65,265	62,012
Passenger transport - international	16,946	15,258
	82,211	**77,270**
Other transport-related revenues:		
Performance of passenger coaches	9,707	8,001
Traction performance abroad	5,932	7,194
Other revenues	3,928	4,485
	19,567	**19,679**
	101,778	**96,949**

When preparing and adopting prices of national services, the Company follows the Decree of the Railway Regulatory Authority on fare regulation in railway transport (hereinafter the "Decree") which stipulates the scope and maximum amount of selected types of fare. With the effective date of 1 November 2011 the Railway Regulatory Authority issued a new Decree which increased the prices by 9.96%.

In terms of the valid Contract on Public Rail Transport Services a carrier may transport passengers even for prices lower than stipulated by the Decree. Fare and transport conditions exceeding the scope of the Decree have to be adopted by the Company Board of Directors. It informs MTCRD on any discounts, together with justification and expected benefits. Pricing and adoption of prices of international services is subject to multilateral and bilateral agreements with foreign railway undertakings.

22 SUBSIDIES FROM CONTRACT ON PASSENGER RAIL TRANSPORT SERVICES

The Company has concluded a Contract on Passenger Rail Transport Services with the Slovak Republic represented by MTCRD which is the basis for operation of passenger transport by rail. In 2011 compensation in the form of prepayments amounting to EUR 204,999 thousand was granted for its operation

in thousand EUR	31 December 2011	31 December 2010
Compensation to cover costs on services in public interest	**204,999**	**228,114**

The following table presents an overview of subsidies granted in compliance with the Contract on Passenger Rail Transport Services in individual years, their maturity and their present value.

in thousand EUR	Present value 31 December 2011		Present value 31 December 2010	
	value maturity	Subsidy	value maturity	Subsidy
Subsidy for 2004 - 2008 *	71,933	31.12.2012	70,537	69,528
Subsidy for 2009	17,042	31.12.2013	16,251	15,870
Subsidy for 2010	67,516	31.12.2013	64,383	62,872
Total			**151,171**	**148,270**
Short-term part			**70,537**	**0**
Long-term part			**80,634**	**148,270**

** Decision of the shareholder no. 21/RA-2012 of 21 March 2012 changed the maturity date of the Company receivable towards MTXRD SR of 30 September 2012 to 31 December 2012.*

23 OTHER SUBSIDIES

in thousand EUR	31 December 2011	31 December 2010
Subsidies on investments:		
- from the State Budget	4,125	3,353
- from the State Budget in combination with EU Funds	825	0
- from Structural Funds	825	0
Other	4	11
	5,779	**3,364**

State Budget subsidies

In 2011 no State Budget subsidy was granted to the Company 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 2010	Subsidy received in 2009	Total
As on 1 January 2011	**29,308**	**10,935**	**40,243**
Drawing	0	0	0
Recognised part of the subsidy	-3,143	-983	-4,126
As at 31 December 2011	**26,165**	**9,952**	**36,117**
Short-term as at 31 December 2011	1,340	464	1,804
Long-term as at 31 December 2011	24,825	9,488	34,313
As at 31 December 2011	**26,165**	**9,952**	**36,117**

in thousand EUR	Subsidy received in 2010	Subsidy received in 2009	Total
As on 1 January 2010	**31,978**	**0**	**3,343**
Drawing	0	11,618	11,618
Recognised part of the subsidy	-2,671	-683	-3,353
As a 31 December 2010	**29,308**	**10,935**	**40,243**
Short-term as at 31 December 2010	2,688	982	3,670
Long-term as at 31 December 2010	26,620	9,953	2,034
As at 31 December 2010	**29,308**	**10,935**	**40,243**

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

In order to renew the rolling stock fleet for suburban and inter-regional railway passenger public transport in Slovakia, the Company started to draw a non-repayable financial contribution in 2009 within the framework of the Operational Programme Transport. According to the Contract on provision of a non-repayable financial contribution the amount of eligible costs under the Operation 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 2011 double-deck units in the value of EUR 48,267 thousand were put into operation, as well as Push-Pull multiple units in the value of EUR 20,308 thousand, and diesel multiple units in the value of EUR 8,853 thousand. Motive power units were reconstructed in the amount of EUR 2,107 thousand, all under the Operational Programme Transport.

In December 2011 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 thousand EUR	Subsidy from the EU Structural Funds	State Budget subsidy in combination with EU Funds	Total
As on 1 January 2011	**10,548**	**10,548**	**21,096**
Drawing	32,754	32,754	65,508
Recognised part of the subsidy	-825	-825	-1,650
As at 31 December 2011	**42,477**	**42,477**	**84,954**
Short-term as at 31 December 2011	4,123	4,123	8,246
Long-term as at 31 December 2011	38,354	38,354	76,708
As at 31 December 2011	**42,477**	**42,477**	**84,954**

in thousand EUR	Subsidy from the EU Structural Funds	State Budget subsidy in combination with EU Funds	Total
As at 1 January 2010	**8,815**	**8,815**	**17,631**
Drawing	1,733	1,733	3,465
Recognised part of the subsidy	0	0	0
As at 31 December 2010	**10,548**	**10,548**	**21,096**
Short-term as at 31 December 2010	111	111	222
Long-term as at 31 December 2010	10,437	10,437	20,874
As at 31 December 2010	**10,548**	**10,548**	**21,096**

24 OTHER NET OPERATING (COSTS) REVENUES

in thousand EUR	31 December 2011	31 December 2010
Insurance of long-term tangible assets	**-3,334**	**-3,431**
Damage compensation	**1,513**	**4,549**
Revenues from sale of assets and material	**229**	**433**
Others, net	**-747**	**1,036**
	-2,339	**2,587**

25 CONSUMPTION AND SERVICES

in thousand EUR	31 December 2011	31 December 2010
Track access charges	46,035	58,247
Repairs and maintenance	28,927	37,539
Energy consumption	31,934	28,618
Material consumption	20,984	16,354
Performance of passenger coaches	8,288	8,099
Performance of motive power units	6,365	8,034
Shunting	7,910	6,141
Cleaning of vehicles, tidying-up, waste removal	4,113	4,433
Rental	4,214	3,990
Services of Wagon Slovakia	3,797	3,861
IT services	3,830	3,273
Travelling costs	2,050	2,128
Operators' performance	1,063	1,134
Costs on replacement bus transport during traffic closures	1,031	1,072
Costs related to care of employees	1,438	1,532
Mediating commissions	1,676	1,600
Services of ŽSR employees	7,470	14
Others	3,421	4,067
	184,546	**190,136**

Significant items of consumed purchases and services in 2011 include mostly costs on track access charges, traction energy consumption and other services ordered from ŽSR. 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 Railway Regulatory Authority. It has also concluded contracts on purchase of traction energy (see not 31 – Related parties).

Costs on repairs regard mainly rolling stock and services related to operation of rolling stock. The Company has a contract for provision of these activities with Železničná spoločnosť Cargo Slovakia, a.s. A great part of costs is related to material consumption (see note 31 – Related parties).

26 PERSONNEL COSTS

in thousand EUR	31 December 2011	31 December 2010
Labour costs	50,142	49,718
Social security costs	20,647	23,680
Total	**70,789**	**73,398**

Wages and remunerations of statutory, controlling and other company bodies:

in thousand EUR	31 December 2011	31 December 2010
Wages	262	571
Remunerations	69	87
Total	**331**	**658**

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

in thousand EUR	31 December 2011	31 December 2010
Current body members		
of which: - statutory	28	16
- supervisory	32	7
Former body members		
of which: - statutory	9	50
- supervisory	-	14
Total remunerations	**69**	**87**

The average number of employees was 4,862 (as at 31 December 2010 it was 4,995), of which the management of the Company includes six employees (six as at 31 December 2010). The Company management consist of the members of the Board of Directors and Directors of individual Divisions.

As at 31 December 2011 the number of employees was 4,792 (5,014 as at 31 December 2010), of which 181 managing employees (180 as at 31 December 2010). A change in the organisational structure as of 1 March 2010 included also team leaders into managing employees.

The average wage in 2011 amounted to EUR 856.80, while in 2010 it was EUR 840.56.

27 FINANCIAL INCOME

in thousand EUR	31 December 2011	31 December 2010
Yield interests	2,913	1,343
Other net financial income	10	4
Total	**2,923**	**1,347**

28 FINANCIAL COSTS

in thousand EUR	31 December 2011	31 December 2010
Cost interests	-6,959	-4,202
Bank expenses	-132	-472
Net exchange rate (losses) income	53	-914
Total	**-7,038**	**-5,588**

29 LOSS FROM FINANCIAL DERIVATIVES

in thousand EUR	31 December 2011	31 December 2010
Net change in derivative measurement	-3,794	-3,443
Costs on derivative operations, except for changes in derivative measurements	-6,728	-6,040
Total	**-10,522**	**-9,483**

30 FINANCIAL RISK MANAGEMENT

The operations of the Company are exposed to various market risks. The main risks resulting from the financial instruments of the Company include the interest risk, liquidity risk and credit risk. To minimize the risk resulting from changes in exchange rate differences and interest rates, the Company enters into transactions with required parameters, or concludes derivative contracts to hedge individual transactions and total risks via instruments available on the market.

Transaction 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 fixed and variable interest rates.

The following table shows a sensitivity analysis concerning changes in interest rate by 100 basis points 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. No influence on equity is expected.

	31 December 2011	31 December 2010
EURIBOR (+1%)	+/- 1.719	+/- 1.560
EURIBOR (-1%)	+/- 1.758	+/- 1.152

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 and available resources based on financial leasing as at 31 December 2011 and 2010 is as follows:

in thousand EUR	31 December 2011	31 December 2010
Long-term loan resources	147,910	141,420
Short-term loan resources	218,774	196,561
Total available loan resources	**366,684**	**337,981**

The following table sums up the maturity of financial liabilities as at 31 December 2011 based on contractual non-discounted payments.

in thousand EUR	Upon request	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	0	87,373	60,537	**147,910**
Trade liabilities and other liabilities	0	81,423	10,004	590	0	**92,017**
Short-term loans	0	144,802	73,792	0	0	**218,774**
Total	0	226,225	83,796	87,963	60,537	**458,521**

The following table sums up the maturity of financial liabilities as at 31 December 2010 based on contractual non-discounted payments.

in thousand EUR	Upon request	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	0	79,470	61,950	**141,420**
Trade liabilities and other liabilities	0	51,666	8,987	486	0	**61,139**
Short-term loans	0	94,723	101,838	0	0	**196,561**
Total	0	146,389	110,825	79,956	61,950	**399,120**

Credit risk

Credit risk represents a risk of financial loss of the Company in case a customer or 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 continuously monitors exposure to credit risk.

The maximum 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.

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 is 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.

in thousand EUR	31 December 2011	31 December 2010
Long-term financial aid	119,706	126,950
Long-term loans	28,204	14,470
Short-term financial aid	7,244	13,000
Short-term loans, including short-term part of long-term loans	211,530	183,561
Debt	**366,684**	**337,981**
Shareholders' equity	**178,180**	**193,677**
Indicators of indebtedness (%)	**206%**	**175%**

31 RELATED PARTIES

Parties related to the Company are all companies associated through property (i.e. under the State control), 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 2011 and 2010:

in thousand EUR	31 December 2011			
Related parties	Revenues generated with related parties	Costs on transactions with related parties	Receivables towards related parties	Liabilities towards related parties
ŽSR	637	88,460	154	4,774
ZSSK CARGO	1,204	37,132	480	11,881
EUROFIMA	0	0	0	126,950

in thousand EUR	31 December 2010			
Related parties	Revenues generated with related parties	Costs on transactions with related parties	Receivables towards related parties	Liabilities towards related parties
ŽSR	707	83,466	125	2,484
ZSSK CARGO	1,978	28,940	267	5,521
EUROFIMA	0	0	0	139,950

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.

Pursuant to an extract from the Companies´ Register of the District Court of Bratislava I, the statutory bodies of the Company were are follows:
Statutory body: **Board of Directors**

Name	Position	From:	To:
Ing. Milan Chúpek, PhD.	Chairman	11.10.2006	15.09.2010
Ing. Pavol Gábor	Vice-Chairman	16.10.2006	15.09.2010
Ing. Igor Krško	Member	11.10.2006	15.09.2010
Ing. Ján Kováčik	Member	11.10.2006	15.09.2010
Ing. Michal Vereš	Member	11.10.2006	15.09.2010
Mgr. Pavel Kravec	Chairman	16.09.2010	25.4.2012
Ing. Jaroslav Paulický	Vice-Chairman	16.09.2010	25.4.2012
Ing. Pavol Tarcala	Member	16.09.2010	25.4.2012
Ing. Jozef Rojík	Member	16.09.2010	21.2.2011
Ing. Viliam Majda	Member	16.09.2010	21.2.2011
Ing. Pavol Gábor	Member	16.09.2010	21.2.2011

Pursuant to the decision of the sole shareholder the following were removed from the Board of Directors with the effectiveness as of 21 February 2011: Ing. Jozef Rojík, Member
Ing. Viliam Majda, Member
Ing. Pavol Gábor, Member

Pursuant to the decision of the sole shareholder the following were removed from the Board of Directors with the effectiveness as of 25 April 2012: Mgr. Pavol Kravec, Chairman of the Board of Directors
Ing. Jaroslav Paulický, Vice-Chairman of the Board of Directors
Ing. Pavol Tarcala, Member

Pursuant to the decision of the sole shareholder the following were appointed to the Board of Directors with the effectiveness as of 26 April 2012: Ing. Pavol Gábor, Chairman of the Board of Directors
Ing. Ľubomír Húska, Vice-Chairman of the Board of Directors
Ing. Igor Krško, člen

Supervisory body: **Supervisory Board**

Name	Position:	From:	To:
Ing. Stanislav Boťuta	Chairman	24.10.2006	10.10.2010
Ing. Milan Mojš	Vice-Chairman	12.12.2006	10.10.2010
Mgr. Matej Augustín	Member	24.10.2006	10.10.2010
JUDr. Miroslav Baláž	Member	24.10.2006	10.10.2010
Mgr. Jozef Schmidt	Member	01.01.2005	19.01.2010
Ján Grieč	Member	01.01.2005	19.01.2010
Ing. Jozef Kováč	Chairman	11.10.2010	
Ing. Vincent Štuller	Vice-Chairman	11.10.2010	
JUDr. Juraj Kamenca, CSc.	Member	11.10.2010	
Ing. Martin Mlýnek	Member	11.10.2010	
Ján Andreanin	Member	20.01.2010	
Jozef Hlavatý	Member	20.01.2010	

32 EVENTS WHICH OCCURRED AFTER THE BOOK CLOSING DATE

Acquisition of tangible and intangible asset
In its Resolution no. 188 of 16 March 2011 the Government of the Slovak Republic adopted the programme of revitalisation of the railway undertakings which, besides other, stipulates removal of the consequences of historical division of the property belonging to the railway undertakings by transferring a certain part related to repairs and maintenance of rolling stock from ZSSK CARGO to ZSSK.

Based on the Governmental Resolution, on 11 August 2011 the Ministry of Transport, Construction and Regional Development of the Slovak Republic adopted the Decision of the Shareholder no. 89/RA-2011 to empower the contracting parties to start the preparations for transfer of the property.

MTCRD SR, as the sole shareholder of the contracting parties and acting as the General Assembly, decided on 27 January 2012 to sell the property serving for repairs and maintenance of rolling stock from ZSSK CARGO to ZSSK.

Based on the decision the movable and immovable assets serving for rolling stock repairs and maintenance were transferred for remuneration. On 1 February 2012 the Contract on sale of assets as a transfer for remuneration concerning the ownership rights to assets in the value of EUR 47,910 thousand and the Contract on sale of rolling stock in the value of EUR 2,109 thousand were concluded.

2011

ŽELEZNIČNÁ SPOLOČNOSŤ SLOVENSKO