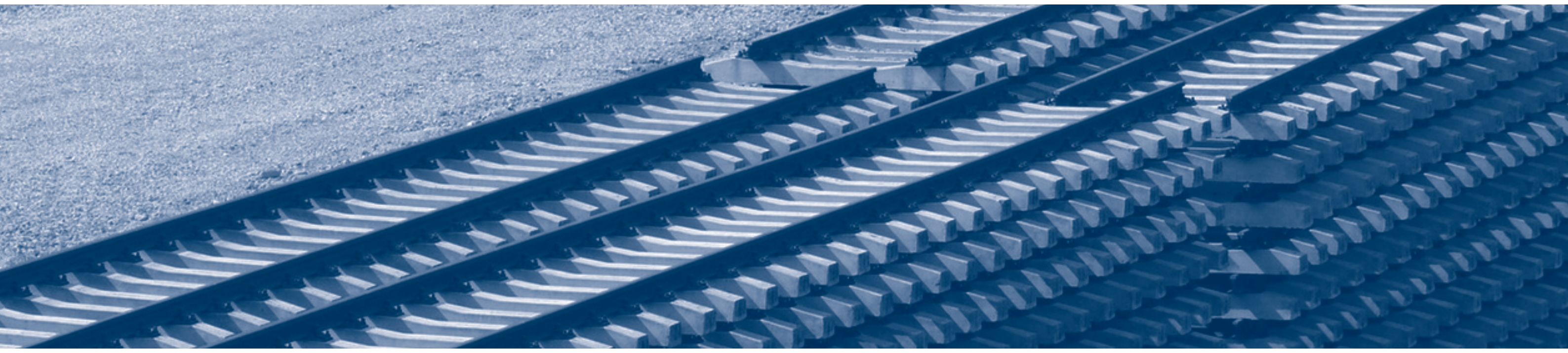
2016
Annual report



ŽELEZNICE SLOVENSKEJ REPUBLIKY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Foreword by the Director General

Dear Ladies, Gentlemen and Colleagues!

2016, the year of 168th anniversary of railways in Slovakia can be reviewed in terms of three attributes –nonstandard, challenging, but ultimately successful. Eventual figure of the business result of Železnice Slovenskej republiky is positive and despite many "but", ŽSR remains reputable company with balanced economy and good results across various critical indicators and a reliable business partner. Under contract with the State, ŽSR fulfilled the provisions of ensuring safe and smooth railway infrastructure with expected performances of railway undertakings. However, the year 2016 also featured many changes, which significantly slowed down standard processes and thus brought even more vigilance to decision-making processes and performance of planned targets in different areas.

ŽSR has got its specific features given by the company history, nature and legislation, which on the one hand are favouring one of the biggest companies in Slovakia, while on the other hand are bringing difficult obstacles in different ways. Therefore, the support by sectorial Ministry of Transport as well as the Ministry of Finance for all major decisions is very important. The year 2016 was good from this point of view. Likewise in 2016 and beyond the management of ŽSR is tasked to secure the best possible conditions in respect of funds, projects and modernization.

In terms of investments, ŽSR used advance funding for three projects worth 20 million EUR, which have good prospects to be reimbursed from the Operational Program Integrated Infrastructure after conclusion of a contract, while managed to launch the modernization project of technically largest and the most complex Považská Teplá – Púchov section. For the first time in its history, ŽSR obtained funding from the international CEF fund through which the preparation process of railway line modernization Devínska Nova Ves - Kúty - state border with the Czech Republic commenced and generally ŽSR has 278 million EUR available from European sources under this Connecting Europe Facility instrument.

The management and the maintenance of existing railway infrastructure is the alpha and omega of functioning of the infrastructure manager. In the course of the year we managed to eliminate several emergency conditions of tracks and bridges, we removed slow lines, we continued to implement the project of railway stations standards. Refurbished railway station in Košice has become an example of a modern railway station of the third millennium. Over the last year, thanks to the joint efforts of managerial and operational units we managed to reduce the number of injuries, fires and accidents, even recorded number of level crossing accidents was the lowest in 16 years. Only quality infrastructure, speed, environmental friendliness, development and stabilization of new parameters of our railway tracks is the way in which rail can gain advantage over cars, both in passenger transport and transport of strategic commodities.

The year 2016 brought significant changes in the field of human resources and the strategy for obtaining young generation and missing specialists for the coming years. We have started to cooperate with both secondary schools and universities, we became involved in dual education and we offered a scholarship programme to secondary vocational schools students with certainty of getting an employment contract after graduation. This is one of the ways to win a battle for qualified employees over new investors in highly competitive environment. The goals of the ŽSR´s management for 2017 also include a detailed wages development analysis, the stabilization of existing operational staff and aim to set further attractive conditions for recruiting new employees for key operation positions. In doing so, we must not lose sight of the stable staff who has worked with ŽSR for years and even decades are the most important because they are making sure that the railway infrastructure keeps working reliably 24 hours a day regardless of standard or extraordinary regime and regardless of difficult conditions.

2016 was another year on a difficult way to fulfill a shared vision of good functioning ŽSR, which is based on the fact that the railway shall become the first choice for people when deciding what kind of transport to choose. The key to achieve demanding objective of attractiveness of railway is efficiency, safety, reliability and quality services built on the pillars of quality and passionate human resources.

Mgr. Martin Erdössy
Director General, ŽSR

Company Profile

ŽSR was established by the Act No. 258/1993 Coll. on Železnice Slovenskej republiky. The company is incorporated in the Business Register of the District Court Bratislava I, Section Po, Insert No. 312/B.
In terms of Act No. 513/2009 Coll. on Railroads and on amendments of some acts as amended by later regulations, Act No. 433/2010 Coll., Act No. 547/2010 Coll., Act No. 313/2011 Coll., Act No. 393/2011 Coll., Act No. 547/2011 Coll., Act No. 133 Coll., Act No. 352/2013 Coll., Act No. 402/2013 Coll., Act No. 432/2013 Coll., Act No. 152/2014 Coll., Act No. 259/2015 Coll., Act No. 282/2015 Coll., Act No. 91/2016 Coll., Act No. 316/2016 Coll., Act No. 351/2016 Coll., which amends and supplements Act No. 513/2009 Coll., Železnice Slovenskej republiky carries out especially the activities related to operation of the railway infrastructure, the traffic management on railroads and the operability of railroads.

Company Strategy

Vision of ŽSR

Provision of modern, interoperable, safe, efficient, accessible and environmentally friendly railway infrastructure aimed at increasing the use of the infrastructure by rail passenger and rail freight services.

Mission of ŽSR

Through the company´s activities and customer-oriented approach establish conditions, which comply with statutory provisions aimed at ensuring railway infrastructure operation.
Manage and develop the railway infrastructure in accordance with customer needs and create competitive environment in domestic and international transport system.
Deliver strategic objectives of ŽSR that provide for infrastructure, which enables to secure reliable and safe rail passenger and rail freight transport.
Increase the competitiveness of the railway infrastructure of ŽSR over other railway infrastructure managers and other transport modes (primarily road transport).
Apply positive influence over the state transport policy within the Slovak Republic and the EU transport policy in favour of increasing the importance of rail transport as an important, safe and environmentally friendly sectors of the national economy.

Strategic objectives of ŽSR

- Balanced business result
- Modern infrastructure
- Effective traffic management
- Effective maintenance
- Effective railway infrastructure administration and internal processes management

Background and objectives of the Strategy of ŽSR have been continuously updated upon changing external and internal environment in present times. The Strategy of ŽSR is built around applicable national and European legislation, and also driven by demands of the Ministry of Transport and Construction of the Slovak Republic as well as customer demands and internal vision of ŽSR.

Statutory Bodies

The statutory bodies of Železnice Slovenskej republiky in terms of the provisions of Articles 4 and 5 of the Act No. 258/1993 Coll. on Železnice Slovenskej republiky as amended by the Act No. 152/1997 Coll. and the Act No. 259/2001 Coll. shall be the Governing Board and Director General. The Governing Board is the supreme body of ŽSR.

Governing Board

Composition as of 31 December 2016

JUDr. Marek BALKO	**Chairman of the Governing Board**
Ing. Róbert SZÜCS	Vice-Chairman of the Governing Board
Ing. Peter STRYČEK	Member of the Governing Board
Ing. Radovan MAJERSKÝ, PhD.	Member of the Governing Board
Mgr. František ZAPARANIK	Member of the Governing Board

Board of Directors

Composition as of 31 December 2016

Mgr. Martin ERDÖSSY	**Director General**
Ing. Igor POLÁK	Deputy Director-General for Development and IT
Ing. Dušan ŠEFČÍK	Deputy Director-General for Economy
Ing. Miroslav KOCÁK	Deputy Director-General for Operation
Ing. Mário OLEŠ	Acting Deputy Director-General for Human Resources
Ing. Pavol BULLA	Director of the Office of Director-General

Information on the situation and the development of ŽSR

I. Operationof the railway infrastructure

a) Contract for the provision of railway infrastructure - balance

In 2016, the operation of railway infrastructure was performed in compliance with the Contract for the provision of railway infrastructure for 2014-2016 and its Supplement No. 2 concluded on 30 December 2015 between ŽSR and the Ministry of Transport, Construction and Regional Development of the Slovak Republic.

From 1 January 2017, the Ministry adopts a name change, now Ministry of Transport and Construction of the Slovak Republic; previously Ministry of Transport, Construction and Regional Development of the Slovak Republic.

Comparison of parameters of the Contract:

Contract - Balance (thou. EUR)	2016*	2015
Costs (total Economically eligible costs)	**363,734**	**352,096**
thereof: Fixed costs	258,415	254,561
Variable costs	103,453	101,860
Costs of other business activities	10,866	-
Settlement of adjustment provisions	-9,000	-4,325
Revenues (total Economically eligible revenues)	**363,745**	**352,115**
thereof: State budget settlement of fixed part of EEC	250,000	250,000
Charge for the Access to railway infrastructure	80,964	79,401
Compensation in terms of the Govt. Resolution No. 390/2013	22,500	22,478
Revenues from other business activities	10,281	-
+ Profit/ - Loss	**11**	**19**

** Figures presented in the table are currently being audited and are subject to protocol evaluation.*

Financing of fixed economically eligible costs was provided under the contract for the provision of railway infrastructure and covered by the state budget. In year-on-year comparison subsidy for fixed economically eligible costs has not been changed.

Variable economically eligible costs were covered by railway undertakings in the form of payments for access to the railway infrastructure in accordance with valid regulatory framework and compensation due to reduced railway infrastructure charges under the Government Resolution No. 390/2013.

b) Charges for the access to railway infrastructure

Charging scheme for the access to railway infrastructure is applied in accordance with the Decree of Railway Regulatory Authority No. 3/2010 on the regulatory framework for laying down charges for the access to railway infrastructure and the Decree of Railway Regulatory Authority No. 7/2012, which amends Part III of the Decree No. 3/2010.

The amount of revenues from charges for access to the railway infrastructure was significantly influenced by introduction of new rules on charges for the access to railway infrastructure under the Slovak Government Resolution No. 390/2013 regarding the application of "Proposal of measures to consolidate railway freight transport of the Slovak Republic" and "Contract on compensation and financial implications for rail freight undertakings for 2010" concluded between the Ministry of Transport, Construction and Regional Development of the Slovak Republic and ŽSR. On the basis of these documents and in compliance with Article III. of the Contract for provision of railway infrastructure, ŽSR applies and approves a compensation towards the Ministry of Transport, Construction and Regional Development of the Slovak Republic associated with a reduction in access charges to railway infrastructure provided by the owner of the infrastructure. The resolution was adopted on 10 July 2013 and shall be valid until 31 December 2016.

Charge (thou. EUR) / Period	2016	2015
Total	103,464	101,879
thereof Compensation for reduction of charges	*22,500*	*22,478*
thereof: Železničná spoločnosť Slovensko, a.s.	47,454	48,008
Železničná spoločnosť Cargo Slovakia, a.s.	40,498	40,689
other undertakings	15,512	13,182
thereof Passenger transport	5,041	4,162
Freight transport	10,471	9,020

The data in the table concerning the undertakings shall also include compensation from reduction in charges for access to the railway infrastructure in freight transport.

In 2016, ŽSR reported revenues from the charges for the access to railway infrastructure in the amount of 80,964 thou. EUR and compensation for reduction of charge amounts to 22,500 thou. EUR. Charges for the access to railway infrastructure including a compensation report a share of 57.49 % on total revenues for own performances and goods, and 21.65 % on total revenues. In year-on-year comparison we report increase of 1,585 thou. EUR, thereof in passenger transport increase of 325 thou. EUR, in freight transport increase of 1,260 thou. EUR. In passenger transport the increase was contributed to by undertakings such as RegioJet, a.s. and Leo Express, a.s. In freight transport the increase was contributed to by different undertakings.

The railway infrastructure is operated on a non-discriminatory basis for every undertaking. In 2016, the services of railway infrastructure were provided to 37 railways undertakings as follows:

- 6 undertakings in passenger transport,
- 31 undertakings in freight transport.

Railway undertakings´performances

From the perspective of year-on-year development as compared to 2015 the increase transport performances represents 451 thou. trkm.

In 2016, performances in passenger transport were on 2015 level, transport the increase in 2016 represents 18 thou. trkm. Other undertakings in passenger transport saw an increase in performances, namely the undertakings Regio Jet (increase by 152 thou. trkm), and Leo Express (increase by 228 thou. trkm). On contrary, railway passenger undertaking ZSSK Slovensko saw decrease of performances by 362 thou. trkm.

Development of performance in freight transport has been stable in year-on-year comparison with modest increase by 433 thou. trkm, mainly due to application of state compensation of financial implications in terms of the Government Resolution No. 390/2013 and the Contract on compensation and financial implications for rail freight undertakings for 2010 and its stimulating influence.

Performance/Period		2016	2015	Year-on-year increase %
Passenger transport	(thou. trkm)	34,608	34,590	0.05
	(mil. grtkm)	10,353	10,176	1.74
Freight transport	(thou. trkm)	15,106	14,673	2.95
	(mil. grtkm)	18,915	18,453	2.50
Total	(thou. trkm)	**49,714**	**49,263**	**0.92**
	(mil. grtkm)	**29,268**	**28,629**	**2.23**

c) Railway infrastructure

Železnice Slovenskej republiky manages and operates nationwide and regional railway tracks and installations as follows:

Parameter/Year	2016	2015
RAILWAY TRACKS AND STRUCTURES		
Construction length of operated lines (km)	3,580	3,581
Construction length of managed lines (km)	3,626	3,626
Construction length of lines (km)	6,871	6,871
Number of switches	8,404	8,459
Number of bridges	2,292	2,297
Total length of bridges (m)	51,272	51,205
Number of tunnels	76	76
Total length of tunnels (m)	45,004	45,004

Different number of bridges and its length as compared to 2015 shall be attributed to change in methodology for assessment of parallel bridges structures.

Figures indicated for "Construction length of managed lines" include the lines with suspended service due to poor technical condition. Non-operated lines with a total length of 46.692 km include:

- Turňa nad Bodvou – MÁV 3.139 km;
- Komárno – Kolárovo 25.908 km;
- Žabokrecká spojka 1.279 km;
- Plavecký Mikuláš – Plavecké Podhradie including operating post Plavecký Mikuláš 5.395 km;
- Breznička – Katarínska Huta 9.823 km;
- Strážčanská spojka 1.148 km.

Parameter/Year	2016	2015
SIGNALLING SYSTEM		
Track signalling systems		
Automatic block (km)	541	541
Automatic block system (km)	520	520
Semi-automatic block (km)	585	585
Lines with telephone communication system (km)	1,580	1,580
Station signalling systems (no.)	472	474
Remote controlled interlocking operated by dispatcher (km)	377	377
Train signalling systems (km)	762	762
Level crossings (no.)	2,105	2,112
Hump signalling systems (no.)	225	225

Parameter/Year	2016	2015
ELECTRICAL INSTALLATIONS		
Electrified lines (km)	1,587	1,587
Extended length of catenary (km)	4,840	4,843
Power supply and switching stations (no.)	93	92

Parameter/Year	2016	2015
OPERATING POSTS ON THE NETWORK OF ŽSR		
Operating posts Total	1,020	1,020
Operating posts manned/unmanned	377/643	379/641
thereof:		
Railway stations	300	300
Border-crossing stations	22	22
Other operating posts (signals, derivations, passing loops, stops, transhipment yards, block-signal positions, operating posts under Regulation ŽSR Z1 and others)	698	698

Year-on-year changes in the data ″Operating posts manned/unmanned″ result from the construction of the corridor and changes in the organization of transport operations within the ZSR and systemization of operating posts.

II. Economic and Financial Indicators

a) Business Result of ŽSR

ŽSR achieved in 2016 a positive financial result. Year-on-year development of costs was significantly influenced in 2016 by settlement of provision for impairment for a receivable of ZSSK Cargo Slovakia, a.s., in the amount of 9,000 thou. EUR in terms of the Slovak Government Resolution No. 390/2013 and Supplement No. 5 to the Agreement on recognition of liabilities Year-on-year development in revenues was affected by increase in revenues from undertakings of the charges for access to the railway infrastructure and on the other hand the increase in personnel costsin terms of Annex No. 1 of the Collective agreement of ŽSR for 2015-2016.

(thou. EUR)	2016	2015
Costs	458,364	454,272
Revenues	466,537	471,461
Business Result (+ Profit, - Loss)	**8,173**	**17,189**
Other comprehensive income components	- 4,239	-1,295
Other comprehensive income (+ Profit,- Loss)	3,934	15,894

Note: Compared with the previous period, some accounts in the statements due to a clearer presentation of items in the statements were regrouped and re-changed. At the same time data of comparable period has been adjusted.

Long-term assets decreased by 9,836 thou. EUR as compared to the previous year mainly due to lower investment value to long-term assets. Amortization of assets at the lower value of investment affects the overall value of assets. Short-term assets increased by 26,579 thou. EUR as compared to previous year due to acceptation of advance payment from Connecting Europe Facility (CEF) in the amount of 22,847 thou. EUR.

Assets of 31 December (thou. EUR)	2016	2015
Long-term assets	**3,382,402**	**3,392,238**
thereof:		
Long-term tangible assets	3,263,227	3,276,875
Short-term assets	**133,979**	**107,400**
thereof:		
Short-term receivables from commercial activity	13,692	13,473
Inventories	8,485	7,692
Cash and Cash Equivalents	78,809	35,356
Total Assets	**3,516,381**	**3,499,638**

Long-term liabilities compared to the previous year decreased by 46,874 thou. EUR, particularly due to settlement of investment subsidies for depreciable assets. Short-term liabilities as compared to 31 December 2015 increased by 33,327 thou. EUR due to the receipt of advance payments from the CEF program in the above mentioned amount, thereof short-term part in the amount of 9,468 thou. EUR.

Liabilities as of 31 December (thou. EUR)	2016	2015
Equity	**1,678,479**	**1,648,189**
thereof		
Registered capital	760,234	760,234
Capital funds	520,228	496,451
Long-term liabilities	**1,641,354**	**1,688,228**
thereof		
Loans, State and EU subsidies	1,482,518	1,551,584
Short-term liabilities	**196,548**	**163,221**
thereof		
Short-term liabilities from commercial activity	77,057	73,461
Total Liabilities	**3,516,381**	**3,499,638**

b) Structure of capital participation in companies as of 31 December 2016

Company	Share (%)
STABILITA, d. d. s., a. s. , Košice	**55.26**
ŽPSV, a. s., Čaňa	**41.06**
Breitspur Planungs GmbH, Viedeň	**25.00**
BETAMAT, a. s., Zvolen	**10.00**
HIT RAIL, b. v., Amsterdam (Holandsko)	**4.00**

- Stabilita – the company administrates supplementary pension insurance,
- ŽPSV Čaňa - the company mainly provides construction and assembly works,
- Breitspur Planungs - the company engaged in preparation of broad-gauge railway connection project,
- Betamat Zvolen – the company in the field of spare parts and assembly of safety installations.

c) Financial indicators

As of 31 December	unit	2016	2015
Business result		**8,173**	**17,189**
Liquidity Indicators			
Current liquidity		2.36	1.93
Total liquidity – average		2.52	2.08
Expenditure Indicators			
Expenditures	%	98.25	96.35
Salary expenditures	%	33.51	31.80
Indebtedness Indicators			
Self-financing indicators	%	83.84	85.22
Total indebtedness	%	16.16	14.78
Debt-to-equity ratio	%	19.27	17.34
Labour Productivity Indicator			
From revenues	€/empl.	33,304	33,632
From performance	trkm/empl.	3,549	3,514

III. Human Resources

Development of employment in 2016 as regard number of employees had stable and only slightly declining tendency.

Development of employment	2016	2015	Difference (2016 - 2015)	Difference v %
Registered headcount as of 31 December	13,929.00	14,066.00	-137	-0.97
Average converted number of employees	14,008.61	14,018.27	-9	-0.06

ŽSR in 2016 continued to implement „Adaptation programme for graduates of selected schools“ and enrolled 71 graduates.

Age structure

Age structure of employees as of 31.12.	2016	% share of employees	2015	% share of employees
up to 20 years	14	0.10	24	0.17
20 - 29 years	1,318	9.46	1,247	8.87
30 - 39 years	2,045	14.69	2,129	15.14
40 - 49 years	4,626	33.21	4,679	33.26
50 - 59 years	5,254	37.72	5,257	37.37
over 60 years	672	4.82	730	5.19
ŽSR total	**13,929**	**100.00**	**14,066**	**100.00**

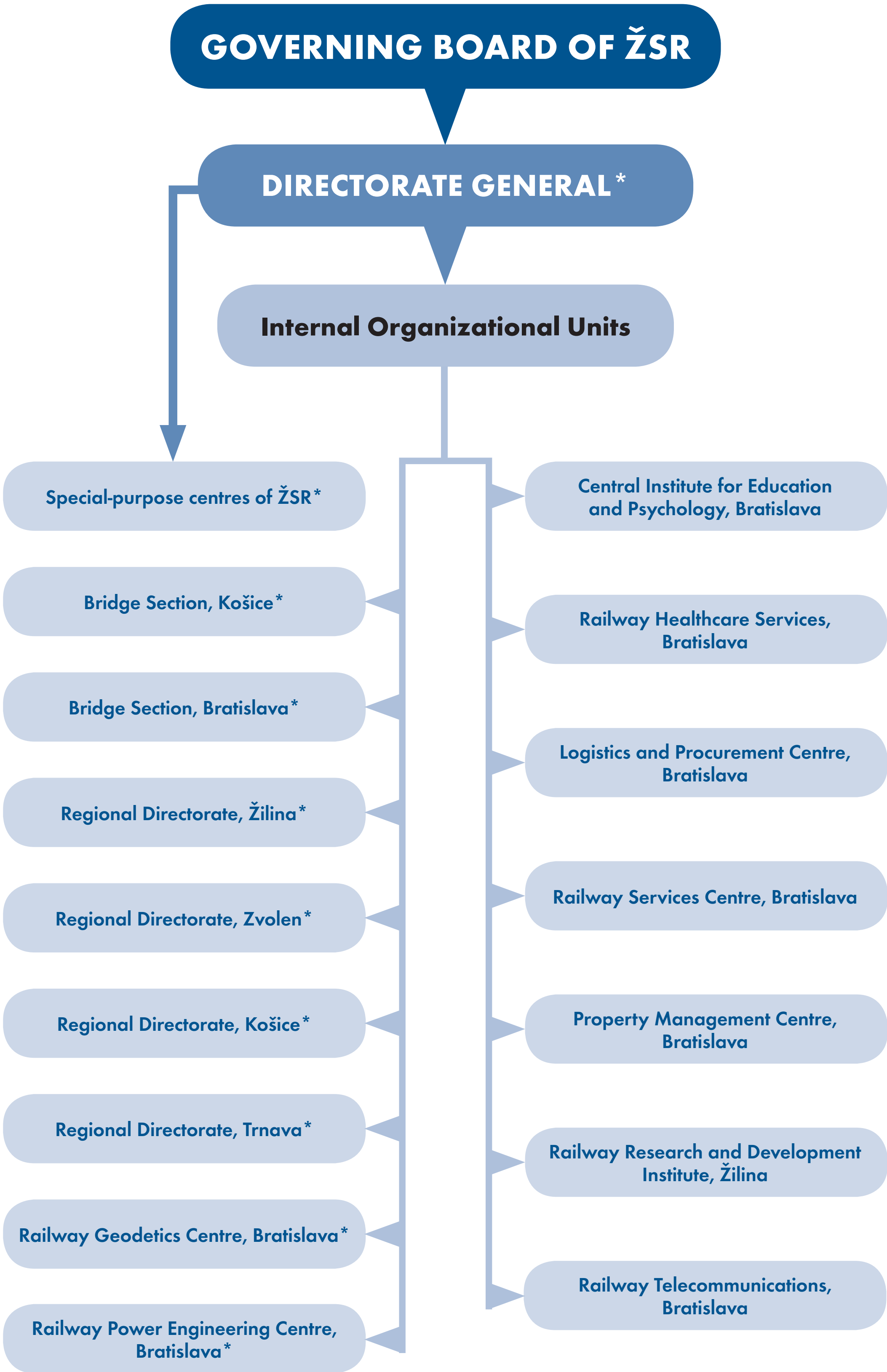
The average age of all ŽSR´s employees was 46.4 years. There was no substantial change in the age structure of employees.

Education structure

Education structure of employees as of 31.12.	2016	2015
Elementary education	373	417
Secondary education	3,606	3,762
Complete secondary education	7,381	7,397
University education	2,569	2,490
ŽSR total	**13,929**	**14,066**

The education structure of employees showed increased share of employees with university education (+ 3 %) and drop in number of employees with secondary education (- 1 %).

Organizational structure of Železnice Slovenskej republiky as of 31 December 2016



** Internal Organizational Units of ŽSR not incorporated in the Business Register.*

Železnice Slovenskej republiky had no independent organizational unit abroad in 2016.

IV. Safety

The Act No. 513/2009 Coll. on Railroads and on amendments of some acts defines which events in railroad operation shall be considered accidents. ŽSR conducts statistical register of accidents and its consequences, determination of the causes of accidents with objective to adopt measures to prevent future accidents and to enhance railway safety.

In respect of obligations under Articles 5, 6 and 9 of the Act No. 124/2006 Coll. on Occupational Safety and Health Protection and on amendment of certain acts, ŽSR ensures preventive controlling activities, on the technical state of workplaces, control the state of occupational safety and health protection, control whether the employees are under the influence of alcohol and other obligations in compliance with internal regulations, decrees and legislation. Under the Act the employer shall be obliged to identify and monitor frequency and severity of occupational injuries and conduct the necessary analysis on the state and development of occupational injuries.

Accidents on the network of ŽSR

Type of accident	2016 Total / ŽSR	2015 Total / ŽSR	Difference Total / ŽSR
Train collision	13/1	12/5	1/-4
Train derailment	5/4	5/1	0/3
Collision with level crossings users	38/0	55/1	-17/-1
Rolling stock fire accidents	7/0	7/0	0/0
Injuries by rolling stock	108/0	127/1	-19/-1
Shunting accidents	31/12,3	38/12,5	-7/-0,2
Consequences of accidents			
Level crossing fatalities	5	13	-8
Unauthorized persons fatalities	80	101	-21
Staff fatalities	2	2	0
Passenger fatalities	0	0	0

Occupational Injuries Report

SUBJECT:	2016	2015	Difference
Total occupational injuries	**43**	**55**	**-12**
thereof major occupational injuries:			
Fatalities	0	0	0
Severe harm	0	4	-4
Number of missed calendar work days:	**3,605**	**4,007**	**-402**
Average number of employees:	**14,008.61**	**14,018.27**	**-9.66**
Number of injuries per 1,000 employees:	**3.070**	**3.923**	**-0.853**

V. Research and Development

Expenditure on Research and Development Assignments

Operational processes / Utilization (thou. EUR)	2016	2015
- Research expenditure	66	46
- Development expenditure	16	39
Total	**82**	**85**

The most significant assignments accomplished in 2016:

- Geodetic instrument for vertical aiming of steel structures,
- Threshold values of electromagnetic emission (EMC) in ŽSR´s traction power a switching substations,
- Overhead contact wire automatic stagger measurement using a device for metering static geometrical characteristics of the overhead contact line,
- Reduction of negative effects of high-voltage discharges on the functionality of safety devices during thunderstorms,
- Assessment of the feasibility study of traction accumulation station.

Other tasks addressed issues in the fields of power engineering, testing, diagnostics and implementation of the legislation of the EU and of the Slovak Republic into ŽSR´s practice.

VI. Investment activities

Investment projects implemented in 2016, primarily related to modernization of railway infrastructure, accounted for a total amount of 136,836 thou. EUR. Investments were directed to modernization of railway infrastructure components – railway stations, railway substructure, and superstructure, overhead contact lines, signalling systems, retaining walls and construction of railway bridges.

Financial means were invested according to utilization purpose, as follows:

(thou. EUR)	2016
Rail infrastructure modernization, reconstruction and construction	115,979
Operational safety	12,124
Improvement of services	6,775
Other (gifts, findings and ZC DHM and DNM)	1,958
Total	**136,836**

Operational Programme Integrated Infrastructure 2014 - 2020

Failure to conclude contracts on non-repayable contributions had a major impact on drawing of funds in 2016, which resulted in non-drawing from the resources of the Operational Program Integrated Infrastructure as of 31 December 2016 (the EU and the State budget). Nevertheless, construction works continued and their financing was temporarily secured from own resources of ŽSR. These funds will be following the signing of contracts for non-repayable contributions reimbursed from the Operational Program Integrated Infrastructure (OPII).

Capital transfer

On 8 March 2016, ŽSR and Ministry of Transport, Construction and Regional Development of the Slovak Republic concluded contracts for the provision of funds from the budget category of MTCRD No.116/B500/2016 for the total amount of 63,320 thou. EUR. Dependence of project implementation in relation to investment projects funded from OPII caused a time delay in implementation, therefore consequently Supplement no. 1 to the contract was concluded on 12 December 2016, which decreased the total volume of capital transfers for 2016 to 38,320 thou. EUR.

Funding instrument - CEF

Under the CEF (Connecting Europe Facility, the investment part) ŽSR received from the European Commission an advance payment of 22,847 thou. EUR, which will be used to finance investment projects in future periods.

Important investment projects in 2016:

- „ŽSR, modernization of railway line Nové Mesto n/V - Púchov for speed up to 160 kph, Stage III phase (Zlatovce - Trenčianska Teplá)“ in the amount of 44,725 thou. EUR;
- ŽSR, modernization of railway line Púchov – Žilina, for speed up to 160 kph, Stage II – (section Považská Teplá /outside/ – Žilina /outside/)“ / advance financing from own resources until signature of the contract on non-repayable contribution in the amount of 17,341 thou. EUR;
- ŽSR, modernization of railway line Nové Mesto n/V - Púchov, Stage IV and V, drawing funds in the amount of 11,575 thou. EUR. Funding of construction works and property and legal settlement;
- Nové Mesto n/V - Púchov, modernization of railway line, Stage I and II, drawing in the amount of 11,492 thou. EUR. Funding of construction works and property and legal settlement;
- „Nové Zámky, reconstruction of external water distribution system“ in the amount of 7,730 thou. EUR;
- Nové Mesto n/V - Púchov, railway line modernization, Stage VI, drawing of 5,395 thou. EUR. Funding of construction works and property and legal settlement, supervision, geodetics works and fee for connection to distribution network;
- Púchov - Žilina, modernization of railway line, Stage I, drawing of 4,513 thou. EUR. Property and legal settlement was financed, elaboration of project documentation and compensation for felling of trees.

VII. Environmental Protection

Overview of ecological accidents

In 2016, ŽSR recorded extraordinary deterioration of water – environmental incidents with an adverse impact on the environment as follows:

Bánovce nad Ondavou – leakage of approx. 100 litres of diesel (ZSSK Slovensko),

Horná Štubňa – Vrútky – on the track section approx. 80 litres of diesel leaked into the ground (ZSSK Slovensko),

Rožňava – leakage of approx. 10 litres of hydraulic oil,

Holiša – Fiľakovo – leakage of approx. 150 litres of motor oil from motive traction unit (ZSSK Slovensko),

Veľký Meder – leakage of approx. 800 litres of diesel due to level crossing accident (RegioJet, collision with road vehicle).

Air pollution

In 2016 ŽSR in accordance with legal obligation the paid fee for air pollution by medium sources in the competence of ŽSR amounted to 2,051 EUR.

Penalties for deficiencies found by state authorities inspecting enforcement of environmental legislation

Under the Decision of Slovak Environmental Inspection Authority, Water Protection Inspectorate Žilina, ŽSR was imposed penalty in the amount of 1,242.26 EUR for unauthorized discharges of waste water from RST Žilina Teplička.

Measures for reduction of negative impact of ŽSR´s activities on the environment

- Continued area-wide system for collection of hazardous waste by an authorized organization,
- Reinstating of bedrock subsoil and underground water in Čierna nad Tisou, the operation of hydraulic protection monitoring and underground water monitoring.

VIII. Important events in 2016

Relations with the State

On 1 July 2016, Contract for the operation of railway infrastructure for 2015 was formally evaluated, resulted in payback of financial means in the amount of 19 thou. EUR to be credited to Ministry of Transport and Construction of the Slovak Republic.

Strategic agenda

- Update of Strategy of ŽSR as a result of changing internal and external environment,
- Cooperation with the Ministry of Transport and Construction of the Slovak Republic and transport associations in development of Transport scheme of the SR,
- Implementation of steps to ensure development of intermodal transport on the network of ŽSR, including development of intermodal transport terminals for automotive industry in the SR (carmaker company Jaguar Land Rover opted for Slovakia to build its new plant).

Modernization of railway infrastructure

Modernization of railway infrastructure in 2016 was financed from own resources and capital transfer. Investment projects with planned EU funding were financed from own resources in a total volume of 20,111 thou. EUR with the expected refunding from OPII and capital transfer in future periods, thus ŽSR ensured continuity of modernization activities. Used capital resources will be after refund used again to finance the modernization and the reconstruction of railway infrastructure. Due to the signing of the first agreements for non-repayable grants, refund is expected in the course of 2017.

Implemented projects on constructions under OPII in 2016:

- „ŽSR, railway line modernization Púchov – Žilina, for speed up to 160 kph, Stage II – (section Považská Teplá /outside/ – Žilina /outside/)“ / advance financing from own resources until signature of the contract on non-repayable contribution in the amount of 17,341 thou. EUR;
- „ŽSR, Completion of marshalling yard Žilina - Tepličkaand connecting railway infrastructure in Žilina node, PD“ / advance financing from own resources untill signature of the contract on non-repayable contribution in the amount of 2,379 thou. EUR;
- „ŽSR, Integrated passenger transport terminals in Bratislava, section Devínska Nová Ves – Bratislava hlavná stanica - Podunajské Biskupice (DÚR)"/ advance financing from own resources until signature of the contract on non-repayable contribution in the amount of 206 thou. EUR.

Besides OPII funds, ŽSR joined CEF programme and received advance payments will be used to finance investment projects in forthcoming period:

- railway line modernization Liptovský Mikuláš, track section Poprad – Lučivná, Poprad – Spišská Nová Ves,
- ŽSR, railway line modernization Devínska Nová Ves – state border SR/ČR.

International meetings

Various important international meetings were held in 2016 aimed at promotion and development of railway transport, mutual cooperation of railway infrastructure managers and railway associations. General assemblies took place on the level of RNE (Lisbon, April 2016; Vienna, December 2016 – in conjunction with Rail Freight Days), CER connected with railway trade fair InnoTrans 2016 (Berlin, September 2016) and UIC (Rome, July 2016; St. Petersburg, December 2016). Other meetings, among others included: Meeting of the Conference of Directors General of OSJD Railways (Cholpon-Ata, April 2016), Meeting of Directors General of G4-Group Railways (Budapest, September 2016), Cross-border cooperation conferences, discussions and meetings in presence of ŽSR and neighbouring railway administrations – ČD, UZ, MÁV, PKP, ÖBB.

Personnel and organizational changes

On 4 May 2016, Minister of Transport, Construction and Regional Development of the Slovak Republic appointed Mr Tibor Šimoni, MBA to the position of Director General of Železnice Slovenskej republiky.
On 8 September 2016, The Government of the Slovak Republic appointed Mr Tibor Šimoni, MBA to the position of Head of the Service Office of the Ministry of Transport, Construction and Regional Development of the Slovak Republic. Mr Tibor Šimoni, MBA consequently terminated his mandate of Director General of Železnice Slovenskej republiky at his own request.
On 8 September 2016 Mr Miroslav Kocák, Deputy Director-General for Operation, was appointed acting Director General of Železnice Slovenskej republiky.
On 3 November 2016, Minister of Transport, Construction and Regional Development of the Slovak Republic Mr Arpád Érsek appointed Mr Martin Erdössy to the position of Director General of Železnice Slovenskej republiky.

Collective agreement

In 2016, ŽSR in terms of Supplement No. 1 of the Collective Agreement ŽSR 2015-2016 ensured growth of monthly tariff salaries by 30 EUR and committed to the amount of paid out benefits in 2015.

IX. Events of important significance beyond 2016

Relations with the State

On 17 January 2017, ŽSR and the Slovak Republic represented by the Ministry of Transport and Construction of the Slovak Republic entered into Contract for the operation of railway infrastructure concluded for the period of five years 2017-2021. The contract shall include, inter alia, agreed standards of railway stations, which aim to increase quality of infrastructure for the traveling public as well as the management and maintenance of railway infrastructure.

Collective Agreement

ŽSR by signing of the new Collective Agreement for 2017-2018 effective from 1 March 2017 has pledged to increase the monthly tariff salaries by 35 EUR and to observe average annual volume of staff benefits per employee of 1,100 EUR.

X. Settlement of Business Result 2016

Železnice Slovenskej republiky for the accounting period of 2016 reported the business result – profit of 8,173,018.17 EUR proposed to undistributed profit of previous years in the amount of 7,673,018.17 EUR and to allocation to central social fund in the amount of 500,000 EUR.

BDR
auditorská firma
Audit Company

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the company Železnice Slovenskej republiky Bratislava and Audit Committee

Report on the Audit of the Financial Statements

Opinion

We have audited enclosed Financial Statements of the company Železnice Slovenskej republiky, with the registered office in Bratislava, IČO (company registration number): 31 364 501 that consists of the statement of financial position as of December 31, 2016 the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year ending as of the above mentioned date as well as the survey of significant accounting principles and accounting methods and other explanatory notes.

In our opinion, the Financial Statements give a true and fair view of the Železnice Slovenskej republiky company's financial position as of December 31, 2016, business results and cash flow for the year ending as of the above mentioned date and in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

Emphasis of specific matters:

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

1. As described in Note 1 to the accompanying Financial Statements, the Company's ability to continue as a going concern and to fulfil its investment program and other operating and financial commitments remains dependent upon continual support from State in the form of capital and operating subsidies.
2. As described in Note 2.1 to the accompanying Financial Statements, environmental burden provision is recorded if there is probable origin of costs to clean up the environment and can be measured reliably. The amount of the provision is the best estimate of necessary expenditures in future periods. Timing of these cash flows mirrors at the same time current assessment of priorities by the management, securing of technology and urgency of achieving these tasks. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.
3. As described in Note 3 to the accompanying Financial Statements, the Company is exposed to significant credit risk of an individual contractual party, as 21.66 % of receivables as at 31 December 2016 (as at 31 December 2015: 23.28 %) is due to from two of the most important customers: Železničná spoločnosť Slovensko, a.s. Bratislava and Železničná spoločnosť Cargo Slovakia, a.s. Bratislava whose only shareholder is the State represented by Ministry of Transport and Construction of the Slovak republic and 64.63 % of receivables is due to founder – Ministry of Transport and Construction of the Slovak republic (as at 31 December 2015: 53.04 %).

This is a translation of the original Slovak Auditor's Report to the accompanying financial statements translated into English language.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

During audit, we identified the following most significance risks:

Accuracy of non-current assets classification and timeliness of their putting in use
Non-current assets appreciation account for more than 100 mil. EUR every year. The key role of audit is to assess the acquired assets correctly, to classify assets into a depreciation group and timeliness of their putting in use.

Assessment whether has it come to decrease in the value of non- current assets
The non-current assets are the predominating part of all assets of Company. Therefore, during the audit we assessed as well, if it had come to decrease in value of non-current assets and in case it had, if it was reported correctly.

Accuracy of reporting and releasing of investments grants
The majority of non-current assets are financed by foreign sources in form of investment grants from national budget or from EU funds. The received grants for non-current assets acquisition are reported as deferred income and released into income in aliquot amount in regard to costs of subsidised assets.

Existence of inventories
Inventories are part of Company's current assets. We have to pay more attention to the verification of their existence during our audit.

Provisions reporting for employee benefits and environmental liabilities
The provisions for employee benefits and environmental liabilities comprise a significant part of Company's provisions. Hence, their calculation is an important part of audit.

Our comments on these risks were as follows:

Accuracy of non-current assets classification and timeliness of their putting in use
We verified the non-current assets appreciation based on closed contracts and incoming invoices. In case the appreciation was significant, we verified the classification of assets into depreciation group as well as the timeliness of their putting in use.

Assessment whether has it come to decrease in the value of non- current assets
We verified all adjustments charged to non-current assets and which decrease their residual value. We verified the accuracy of posting and reporting of adjustments in financial statements of Company.

Accuracy of reporting and releasing of investments grants
We verified the reports of received investment grants in deferred income and its division into a short and long term part. We verified the release of the grant amount according to the costs related to non-current assets financed by received grants.

Existence of inventories
We took part at physical count of inventories in several Company's stores. The stock of inventories adjusted by increase and decrease of material from the day of the physical count to the day of financial statements preparation was compared with the operative stock evidence of Company dated 31 December 2016.

Provisions reporting for employee benefits and environmental liabilities
We assessed and verified the input data necessary to calculate the amount of provision for employee benefits and environmental liabilities. We verified the calculation method and its reporting in the financial statements. As the estimates and related assumptions are based on previous experiences, the real results can be rather different.

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

Company management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, company management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.
Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

This is a translation of the original Slovak Auditor's Report to the accompanying financial statements translated into English language.

Report on Other Legal and Regulatory Requirements

The Report on the Information Referred in the Annual Report

Company management is responsible for the information referred in the Annual Report compiled in accordance with the requirements of Act on accounting. Our abovementioned opinion on the Financial Statements does not relate to any other information referred in the Annual Report.
With respect to the audit of Financial Statements, it is our responsibility to familiarize ourselves with the information referred in the Annual Report and to evaluate whether the information is not substantially inconsistent with the audited Financial Statements, with our knowledge obtained during auditing the Financial Statements, or the information appears to be materially misinterpreted otherwise.
We considered whether the Annual Report of the Company includes the information required Act on accounting.

Based on works performed during the audit of Financial Statements, in our opinion:

- the information referred in the Annual Report for the year 2016 is in compliance with the Financial Statement for the relevant year;
- the Annual Report includes the information according to Act on accounting.

Furthermore, based on our knowledge about the entity and its situation as we acquired during the audit of Financial Statements, we are obliged to state whether we found any material misstatements in the Annual Report we had received before the date of the issue of this Auditor´s Report. In this context, there are no findings which should be reported.

Additional Requirements for the Content of Auditor´s Report in accordance with the Regulation of the European Parliament and of the Council (EU) No. 537/2014 of 16 April 2014 on Specific Requirements regarding Statutory Audit of Public-Interest Entities

Appointment and approval of auditor
The statutory body of the Company appointed the statutory auditor on 6th July 2015 based on the approval by the Governing Board of ŽSR on 25th June 2015. The overall continuous period of our order, including the previous renewals of order and our repeated appointment for statutory auditors is of 9 years.

Consistency with the Additional Report for the Audit Committee
Our auditor´s opinion expressed in this report is consistent with the additional report worked out for the Audit Committee of the Company, which we issued on the same day as the date referred to in this report.

Non-Audit Services
We have not provided any prohibited non-audit services referred in Article 5, paragraph 1 of the Regulation of the European Parliament and of the Council (EU) No. 537/2014 of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities, and while performing the audit, we remained independent form the Company.
Besides the services of statutory audit and the services disclosed in the Annual Report and the Financial Statements, we have not provided any other services to the Company and the enterprises in which the Company exercises decisive influence.

Banská Bystrica, March 6, 2017

BDR, spol. s r.o. Banská Bystrica
M.M.Hodžu 3, 974 01 Banská Bystrica
Licence SKAu No. 6
Commercial Register of District Court, Banská Bystrica
Section: Sro, File No.: 98/S, IČO (company registration number): 00614556
An independent member firm of Moore Stephens International Limited

Slovenská komora audítorov SKAU Č. licencie 6 BDR spol. s r.o., Ban. Bystrica

Ing. Miroslav Čiampor
Responsible auditor
License UDVA No.1068

This is a translation of the original Slovak Auditor´s Report to the accompanying financial statements translated into English language.

ŽELEZNICE SLOVENSKEJ REPUBLIKY

Separate Financial Statements

prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2016


SNEHOVÁ FRÉZA

Contents

STATEMENT OF FINANCIAL POSITION

	Note	31 December 2016	31 December 2015
ASSETS			
NON-CURRENT ASSETS			
Property, Plant and Equipment	4	3,263,227	3,276,875
Real Estate Investment	5	33,975	34,534
Intangible Assets	6	10,321	7,273
Financial Investment	7	4,904	4,904
Non-Current receivables	8	69,975	68,652
Total Non-Current Assets		**3,382,402**	**3,392,238**
CURRENT ASSETS			
Inventories	9	8,485	7,692
Trade receivables	10	13,692	13,473
Other receivables and assets	11	32,993	50,879
Cash and Cash Equivalents	12	78,809	35,356
Total Current assets		**133,979**	**107,400**
TOTAL ASSETS		**3,516,381**	**3,499,638**
EQUITY AND LIABILITIES			
EQUITY			
Registered capital		760,234	760,234
Capital funds		520,228	496,451
Legal reserve fund		21,904	21,904
Earnings from previous periods		367,940	352,411
Profit for accounting period		**8,173**	**17,189**
Accumulated earnings		376,113	369,600
Total Equity	13	**1,678,479**	**1,648,189**
NON-CURRENT LIABILITIES			
Loans	3,14	62,741	62,742
State and EU subsidies	15	1,419,777	1,488,842
Provisions and accruals	16, 17,18	99,942	93,884
Deferred tax liability	37	42,066	39,074
Other non-current liabilities	19	16,828	3,686
Total Non-Current Liabilities		**1,641,354**	**1,688,228**
CURRENT LIABILITIES			
Short-term loans and curr. portion of long-term loans	3,14	4	3
Short-term state and EU subsidies	15	79,537	60,865
Trade liabilities	20	77,057	73,461
Payables to the public institutions	21	8,621	8,502
Other liabilities	22	24,145	14,120
Provisions and accruals	16,17,18	7,184	6,270
Total Current liabilities		**196,548**	**163,221**
TOTAL EQUITY AND LIABILITIES		**3,516,381**	**3,499,638**

Accounting policies and explanatory notes are an integral part of the financial statements.

STATEMENT OF COMPREHENSIVE INCOME

	Note	31 December 2016	31 December 2015
REVENUES			
Railway infrastructure operation	23	91,257	89,665
Subsidies for railway infrastructure operation	24	272,481	272,478
Electric energy	25	66,304	69,532
Telecommunication services and IT services	26	5,388	6,048
Property revenues	27	10,317	11,279
Other revenues	28	20,790	22,459
Total revenues		**466,537**	**471,461**
OPERATING COSTS			
Materials and consumables	30	-27,202	-28,796
Energy	31	-75,992	-78,803
Services	32	-37,305	-36,582
Payroll costs	33	-233,088	-219,738
Depreciation, amortization and impairment	34	-85,725	-88,348
Other operating costs, net	35	4,563	9,614
Total operating costs		**-454,749**	**-442,653**
PROFIT FROM OPERATIONS		**11,788**	**28,808**
FINANCIAL COSTS / INCOME			
Interest from loans	14	-188	-335
Other financial income	36	348	191
Total financial costs / income		**160**	**-144**
PROFIT before tax		**11,948**	**28,664**
Income tax	37	-3,775	-11,475
NET PROFIT after tax		**8,173**	**17,189**
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Re-measurements of post-employment benefit obligations	18	-5,365	-1,660
Deferred tax related to re-measurements	37	1,126	365
COMPREHENSIVE PROFIT FOR PERIOD		**3,934**	**15,894**

Accounting policies and explanatory notes are an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

	Registered capital	Capital funds	Legal reserve fund	Accumulated earnings	Total
As at 1 January 2015	**760,234**	**489,238**	**21,904**	**354,943**	**1,626,319**
Profit for the period	0	0	0	17,189	17,189
Non-cash increase in capital	0	6,923	0	0	6,923
Allocation to Social fund	0	0	0	-500	-500
Other comprehensive income	0	290	0	-2,032	-1,742
As at 31 December 2015	**760,234**	**496,451**	**21,904**	**369,600**	**1,648,189**
As at 1 January 2016	**760,234**	**496,451**	**21,904**	**369,600**	**1,648,189**
Profit for the period	0	0	0	8,173	8,173
Non-cash increase in capital	0	26,720	0	0	26,720
Other comprehensive income	0	-2,943	0	-1,660	-4,603
As at 31 December 2016	**760,234**	**520,228**	**21,904**	**376,113**	**1,678,479**

Accounting policies and explanatory notes are an integral part of the financial statements.

STATEMENT OF CASH FLOWS

		31 December 2016	31 December 2015
Profit before tax		**11,948**	**28,664**
Adjustments by non-cash transactions		**104,049**	**115,306**
Depreciation and amortization		178,250	164,477
Dividends and other profit sharing recorded against revenues		-245	-89
Interest recorded against expenses		235	630
Interest recorded against revenues		-164	-422
Gain from the sale of property, plant and equipment		-983	-1,924
Change in provisions		7,533	476
Amortization of state subsidies		-92,525	-75,006
Other non-monetary items		0	-1,500
Effect on changes in working capital		**39,470**	**-111,672**
Changes in receivables and other assets		16,409	-32,942
Changes in liabilities		23,854	-80,389
Changes in inventories		-793	1,659
Cash flow from operating activities		**143,519**	**3,634**
Expenditure on income tax		-22	-35
Interest received		99	164
Interest paid		-190	-335
Net cash flows from operating activities		**143,406**	**3,428**
Acquisition of property, plant and equipment and non-current intangible assets		-144,518	-282,404
Subsidies for acquisition of non-current assets		42,132	250,106
Cash receipts from the sale of property, plant and equipment and non-current intangible assets		2,187	2,456
Net cash flows from investment activities		**-100,199**	**-29,842**
Cash receipts from dividends and other profit sharing		245	89
Cash receipts from loans borrowing		1	0
Repayment of liabilities related to financial leasing		-1	-331
Net cash flows from financial activities		**245**	**-242**
Net increase / decrease in cash and cash equivalents		**43,452**	**-26,656**
Cash and cash equivalents at the beginning of the year	12	**35,355**	**62,011**
Cash and cash equivalents at the end of the year	12	**78,807**	**35,355**

Accounting policies and explanatory notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 COMPANY´S GENERAL INFORMATION

Železnice Slovenskej republiky („ŽSR" or „the Company") was formed on 10 November 1993, pursuant to Act No. 258/1993 Coll. on Railways of Slovak republic of the National Council of the Slovak Republic dated 30 September 1993 (later amended by Act No. 152/1997 Coll. dated 14 May 1997 and Act No. 259/2001 Coll. dated 14 June 2001) and registered under number Po 312/B in the Commercial Register of the District Court I. in Bratislava.

Name:	Železnice Slovenskej republiky, Bratislava, in short form „ŽSR"
Registered office:	Klemensova 8, 813 61 Bratislava
Registration number (IČO):	31 364 501
VAT Registration number (DIČ):	20 20 480 121
Legal form:	Other legal entity established in accordance with Act No. 258/1993 Coll. on Railways of the Slovak Republic

The Company is a legal successor of Železnice Slovenskej republiky, š. p., which was established on 1 January 1993, at the time of the separation of the former Czechoslovakia into the Czech republic and Slovak Republic.

The founder of the Company is the Ministry of Transport and Construction of Slovak republic ("Ministry of Transport") that although is not directly involved in the Company´s day-to day operations, does oversee certain aspects of the business through representation on the Governing Board of ŽSR.

The Company's assets although it is recognized in the statement of financial position of the Company is owned by the Slovak Republic and it is entrusted to the Company.

The Company cannot enter into credit relations of third parties as a guarantor; neither establishes a lien in favor of third parties to property belonging to the State. The Company is not a shareholder with unlimited liability in any company.

The managing bodies of ŽSR consist of the Administrative Board and General Director.

Administrative Board is the top managerial body of ŽSR. It is composed of five members – four of them are experts from transport sector, expert on finances and law; and one member is elected representatives of the employees of the railways.

The members of Administrative Board of ŽSR:

JUDr. Marek BALKO	chairman
Ing. Róbert SZÜCS	deputy chairman
Ing. Peter STRYČEK	member
Ing. Radovan MAJERSKÝ, PhD.	member
Mgr. František ZAPARANIK	member

The Company has established Audit Committee of Railways of the Slovak republic pursuant to the Act No. 423/2015 Coll. on Statutory Audit and on amendments and supplements to the Act No. 431/2002 Coll. on Accounting as amended, composed of:

Ing. Jana KRUPCOVÁ	chairman
Ing. Peter ŠIŠOLÁK	member
Ing. Andrea DURÁKOVÁ	member

ŽSR are manager of railway infrastructure in accordance with Operation of Railway Infrastructure Contract concluded with the Slovak republic represented by Ministry of Transport as an owner of railway infrastructure. Manager of infrastructure is obliged to ensure track in serviceable condition, to restore the track after an accident or extraordinary event, to maintain the track according to the projected specifications, development of the track in accordance with technical progress and with the requirements for safety and flow of traffic on the track, operation of railway infrastructure, organization and management of railway transport on the railway network.

Owner of the infrastructure provides funds for the operation of railway infrastructure in accordance with Operation of Railway Infrastructure Contract. Owner of the infrastructure also provides subsidy in the form of capital transfer to develop and modernize property.

The Company´s ability to continue as a going concern and to fulfil its investment program and other operating and financial commitments remains dependent upon continual support from State in the form of capital and operating subsidies.

The accounting period is one calendar year.

Financial statements for the previous period ended 31 December 2015 were approved by Administrative Board of ŽSR on 14 April 2016 in Bratislava.

For the year ended 31 December 2016 the Company reported a net profit of € 8,173 thousand (for the year ended 31 December 2015: profit of € 17,189 thousand).

2 BASIS OF PREPARATION

The Company prepares separate financial statements in accordance with IFRS as adopted by the EU in accordance with Accountancy Act No. 431/2002 Coll. § 17a, section 1 as amended. IFRS comprise standards and interpretations approved by EU committee.

The Company is part of the summary financial statements of public accounts of Slovak republic, compiled by Ministry of Finance of Slovak republic in accordance with Accountancy Act No. 431/2002 Coll. §22a, section 3 as amended.

In accordance with Accountancy Act No. 431/2002 Coll. §22, section 12 as amended, the Company is exempt from the requirement to prepare consolidated financial statements and consolidated annual report as compilation of separated financial statements does not significantly affect the financial situation, expenses, income and profit or loss of the consolidated group. Business name and registered office in which the Company has an ownership interest is disclosed in Note 7.

Separate financial statements ("financial statements") have been prepared on a going concern basis, which contemplates the realization of assets and the discharge of liabilities and commitments in the normal course of business, and do not give effect to any adjustments that may be necessary should the Company be unable to continue as a going concern.

Financial statements have been prepared on a historical cost basis. Further below basic accounting principles are described.

Figures disclosed in ŽSR´s separate financial statements for the year ended 31 December 2016 are presented in thousands of euro („€" or „EUR"), unless otherwise stated. Based on the economic nature of fundamental events and circumstances, the currency euro was defined as a presentation currency of the Company.

The Company for clearer presentation of items of financial statements restructured some of the information in the notes compared to the previous period. Comparative period has also been adjusted.

2.1 Use of estimates and judgments

Preparation of financial statements requires use of estimates, judgments and assumptions which affect the application of accounting policies and accounting principles and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumption are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Provision for Employee benefits

The Company has a long-term employee benefit plan consisting of a one-off contribution upon retirement, bonus upon disabled retirement, compensating contribution and bonus upon life and work jubilees. Benefit value is paid based on reached age and length of service. These benefits are unfunded. The estimate of cost for providing these benefits is determined using a projected actuarial valuation method, so-called Projected Unit Credit Method. Under this method, all benefits costs are recorded in the Statement of comprehensive income that way in order to spread regularly repeated costs over the employment period. Liabilities from granting the benefits are valued at present value of foreseen future cash flows. Actuarial profits and losses from post-employment benefits are recognized in equity, others actuarial profits and losses are recognized in the Statement of comprehensive income.

Environmental Burden provision

Environmental burden provision is recorded if there is probable origin of costs to clean up the environment and can be measured reliably. The amount of the provision is the best estimate of necessary expenditures in future periods. Timing of these cash flows mirrors at the same time current assessment of priorities by the management, securing of technology and urgency of achieving these tasks.

Provision for legal claims

Provision for legal claims is created if the Company is sued by another entity in legal, administrative or other proceedings regarding paying a certain specific amount, where termination of the proceedings not in favor of the Company is more than probable. Management relies on own professional assessment upon assessing the forecasted results.

Provision for demolition of buildings

Provision for demolition of buildings is recognized if the Company has decided to demolish buildings or other operating equipment. Disposal of buildings are perform due to security reasons in cases where there is collapse of the object, the object is in a dilapidated condition and is unnecessary for operating activities and cannot be otherwise capitalized (sell or lease). Accounting for provision is based on expert estimate which corresponds to the future costs necessary for demolition of buildings.

2.2 Significant accounting policies

Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are stated at cost less accumulated depreciation/amortization, while lands are carried either at cost or an administrative value assigned by the State (which is not necessarily intended to represent market value).

Original cost of non-current tangible assets and intangible assets includes purchase price including import duty and non-reversible taxes and all directly attributable costs related to putting the asset into working condition and to place it where it will be used. Acquisition cost also includes induced investments and interest costs related to the acquisition.

Assets under constructions represent non-current tangible assets and intangible assets and are reported at acquisition cost. This includes the costs directly related to acquisition of assets. The value of assets under constructions is reduced by the difference resulting from recalculation of non-current payables (retained sum) to present value, if its value is material. Assets under constructions are not depreciated until the relevant asset is ready for use.

Each item of non-current tangible and intangible assets is depreciated using the straight-line method over its expected economic useful life. Depreciation and amortization commences on the first day of the month following the date the asset was put into use. Useful life for various types on non-current intangible and tangible assets are as follows:

- buildings	40 to 50 years
- structures	from 15 to 40 years
- equipment and machinery	from 5 to 20 years
- other non-current assets	from 4 to 20 years
- intangibles	from 3 to 25 years

Land and works of art are not depreciated.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. The value originally assigned to the item of property, plant and equipment is divided relative to its significant parts and each part is depreciated separately.

Economic useful life and depreciation method are reviewed annually, at a minimum, with the aim to ensure consistency of the depreciation method and period with the expected inflow of economic benefits from non-current assets.

An asset is removed from the statement of financial position on disposal. The gain or loss on disposal are recognized in profit or loss of operating activities

The carrying values of property, plant and equipment and intangible assets are reviewed for impairment annually when events or changes in circumstances indicate the carrying value may not be recoverable.

If the event of such indications the estimate of recoverable amount of that asset is made to determine possible impairment loss. If the recoverable amount of an individual asset cannot be determined, the Company defines recoverable amount of cash-generating unit, which the asset belongs. The recoverable amount is the greater of fair value less costs to sell or value in use. The estimate of future cash flows is discounted to their present value using a pre-tax discount rate in assessing value in use that reflects current market assessment of the time value of money and risks specific to the assets.

Loss on impairment of assets is reported in the Statement of comprehensive income in the amount by which the carrying value of an asset exceeds its realizable value, which is the greater of net selling price of property or value in use.

If the Company decides to cease an assets under constructions or departs significantly from its planned completion, it reviews the potential decrease in value and records impairment.

Expenditures incurred on non-current assets items after their being put into use increase their book value only if the Company can expect future economic benefits exceeding their original performance. All other expenditures are recorded as repairs and maintenance costs in the period to which they relate pertinently and timely.

Leased assets

Assets acquired as a finance lease, where practically all advantages and risks are characteristic for ownership of leased assets, are capitalized at the beginning of the lease period in their fair value or in the present value of minimum lease payments, if lower. Each lease payment is divided to finance part and repayment of the principal in order to obtain the constant interest rate applied to the unpaid part of the lease liability. Finance part is recorded as costs. Capitalized lease is being depreciated over estimated economic useful life of the asset. Initial direct costs related to finance lease contract closing are added to book value of leased asset and disclosed during the lease period.

Leases where a significant part of risk and benefits related to ownership rests with the lessor is classified as operating lease. Operating lease payments are reported as costs in the Statement of comprehensive income equally over the lease period.

Real Estate Investments

Real Estate Investments mean assets determined for obtaining rental fees or capital recovery. They are originally valued at acquisition cost including transaction costs. After first time disclosure they are valued at acquisition costs less accumulated depreciation and impairment losses.

Financial investments

Shares in subsidiaries and associated companies and other investments are presented at their acquisition costs. Acquisition costs consist of related to acquisition and represent fair value of paid price and directly attributable transaction costs. Revenues related to financial investments, such as dividends, are recognized after the entry into the legal entitlement to dividends in the income statement within the financial income.

Inventories

Inventories are valued at the lower of cost or net realizable value. Cost is determined on a weighted average basis and includes acquisition cost plus costs related to the acquisition. Inventory is written down for any impairment of value equal to the difference between the acquisition cost and net realizable value. Net realizable value is the estimated selling price less the estimated costs necessary to make the sale. The Company writes down slow moving and obsolete inventory based on the age structure of the periodic review and assessment of management. To ensure continuous immediate maintenance and repairs, the Company keeps constant backup and long-needed supplies in operating warehouses. These inventories are not write down.

Cash and cash equivalents

Cash and cash equivalents are formed by financial funds in bank or in hand and short-term deposits with a maturity of less than three months from date of acquisition with only low risk of change in value.

Foreign currency transactions

Transactions in foreign currencies are reported according to IAS 21 and are converted at the exchange rate as at the day before transaction day and as at the day of preparation of financial statements according to rates announced by the European Central Bank. All differences are reported in the Statement of comprehensive income. Non-monetary items in foreign currencies are not converted as at end of the reporting period and are reported in original value.

Classification and clearing of financial instruments

Financial assets and liabilities disclosed in the Statement of financial position include cash and cash equivalents, receivables and liabilities, loans and borrowings. Financial instruments are classified as assets, liabilities or equity in accordance with the content of the contractual agreement. Financial instruments are offset if the Company has a legally enforceable right to offset them and also intends to realize an asset or settle a liability or mutually offset them. Clearing of the financial instrument is executed if the Company does not control contractual rights comprising financial instrument anymore, which is what usually happens if a particular instrument is sold or if all cash flows attributable to that instrument are transferred to an independent third party.

The discount rate of receivables is determined in accordance with IAS 36 – Impairment of Assets. As an asset-specific rate is not directly available from the market, estimate is used in accordance with Appendix A to IAS 36. Estimate takes into account the time value of money for the periods until the end of the asset's useful life, expectations about possible variations in the amount or timing of those cash flows, the price for bearing the uncertainty and other factors (such as insolvency).

The discount rate of liabilities is determined in accordance with IAS 37 - Provisions, contingent liabilities and contingent assets. The discount rate is a pre-tax rate, that reflects current market assessment of the time value of money and the risks specific to the liability.

The estimate of discount rate takes into account other market borrowing rates. Based on the above information, the discount rate of receivables and liabilities as at 31 December 2016 is set to 2% (as at 31 December 2015: 2 %).

Receivables

Receivables are recognized at nominal value after considering bad debts allowance. If time value of money is significant, receivables are valued at amortized costs using the effective interest rate method. Receivables are recognized in the statement of financial position as non-current or current assets according to maturity.

Bad debt allowance is recorded in the Statement of comprehensive income if there is an objective assumption (e. g. probability of insolvency, major financial problems of customers and others) that the Company is not able to collect all due amounts in accordance with original invoice conditions. The Company also determines the bad debt allowance on the age structure of receivables. Impaired outstanding amounts are written off if considered uncollectable regardless of legal proceedings for recovery of debt is complete.

Loans and borrowings

All loans and borrowings are initially recognized at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, all loans and borrowings are subsequently measured at their amortized cost, using the effective interest rate method.

Payables

Payables are initially recognized at nominal value and upon transfer at acquisition cost. If time value of money is significant, payables are valued at amortized costs using the effective interest rate method.


4

Provisions

Provisions are recognized when the Company has a present obligation (legal, contractual or non-contractual) as a result of a past event, it is probable that an outflow of resources representing economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at the end of reporting period and the amount is adjusted to reflect current best estimate. The amount recognised as a provision represents present value of the expenditure, taking into account existing risks, that is expected to be settled. These expenditures are determined using the estimated fixed interest rate as a discount rate. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

State and EU subsidies

State subsidies are recognized at their fair value where there is reasonable assurance that the subsidy will be received and all attached conditions will be met. Subsidies related to expense items are recognized as income over the periods necessary to match them on a systematic basis to the costs that they are intended to compensate. If a subsidy is related to the acquisition of a non-current asset, the fair value of the subsidy is credited to a deferred income account and released to the Statements of comprehensive income the expected useful life of the relevant asset by equal annual installments.

Revenue recognition

Revenues are recognized in rendering of services and goods net of value added tax and discounts. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The Company recognizes revenue from fees for access to railway infrastructure, sales of additional services of railway infrastructure, sales of energy, sales of telecommunications services and services of information technologies, revenue from real estate investments and other services on an accrual basis.

Material adjustment of prior period costs and income

Upon recording prior period costs and income adjustment it is necessary to consider if the adjustment is material or not. Material adjustment is determined at a value of € 5,000 thousand recorded in current period. If balance of costs and income adjustments, recorded in current period, exceed the determined value of € 5,000 thousand, these adjustments do not affect profit/loss of current year and are recognized in the Statement of financial position in equity.

Income tax

Income tax includes current income tax and deferred income tax.

Current income tax is calculated from accounting profit in accordance with Slovak regulations in the amount of 22 % after adjustments to some of items for tax purposes.

Deferred income tax is provided, using the balance sheet method, on all temporary differences as at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts. Deferred tax is recognized as income or expense excluding deferred tax recognized in equity.

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively legalized as at the date that the financial statements are authorised for issue.

2.3 New accounting standards and interpretations

These standard and their amendments will be applied after approval by the European Commission and from effective date.

The Company reviews the potential impacts of the application of certain standards.

The Company has not applied any standards issued after 31 December 2016 in preparing the financial statements:

- amendment to IAS 12 - 'Income Taxes' regarding the recognition of deferred tax assets for unrealised losses, effective from 1 January 2017;
- amendment to IAS 7 - 'Statement of Cash Flows' regarding the disclosure of liabilities from financial activities, effective from 1 January 2017;
- IFRS 9 - 'Financial Instruments' replaces the guidance in IAS 39 and includes requirements for the classification and measurement of financial assets and financial debts, includes also expected credit loss model, effective from 1 January 2018;
- IFRS 15 - 'Revenue from contracts with customers', effective from 1 January 2018;
- IFRS 16 - 'Leases', effective from 1 January 2019.

IFRS 15 - 'Revenue from contracts with customers'

IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

The standard provides guidance for the use of specific transaction such as obligation to fulfilling satisfied over time, the sale with right of return, guarantee, general versus mediated consideration, customer's possibilities regarding additional supplies of good or services, initial fees, billing agreements prior to delivery, licensing.

The standard also provides guidance for variable consideration and time value of money and disclosure requirements.

IFRS 16 - 'Leases'

IFRS 16 replaces IAS 17 Leases and related interpretations. IFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.

The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change.

Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.

The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

3 FINANCIAL RISK MANAGEMENT

Financial risk factors

The Company is exposed to the following financial risks during performance of its activities:

- credit risk
- liquidity risk
- market risk, including interest rate risk

Credit risk

Credit risk arises in relation to cash and cash equivalents in banks and financial institutions and especially in respect to trade relations with customers. Credit risk associated with liquid assets in financial institutions is limited because contracting parties are mainly banks with high credit rating assigned to them or to their mother companies by international rating agencies.

Credit risk of the Company mainly results from trade receivables. Maximum risk of not paying represents the book value of each financial asset shown in the Statement of financial situation, less allowance for impairment.

The Company is exposed to significant credit risk of an individual contractual party, as 21.66 % of receivables as at 31 December 2016 (as at 31 December 2015: 23.28 %) is due to from two of the most important customers: Železničná spoločnosť Cargo Slovakia, a. s. Bratislava ("ZSSK CARGO") and Železničná spoločnosť Slovensko, a. s. Bratislava ("ZSSK") whose only shareholder is the State represented by Ministry of Transport and Construction of the Slovak republic and 64.63 % of receivables is due to founder – Ministry of Transport and Construction of the Slovak republic (as at 31 December 2015: 53.04 %).

The following table shows Company's receivables by maturity period:

	31 December 2016	31 December 2015
Receivables within maturity	**154,799**	**181,498**
Up to 1 month	15,478	15,994
From 1 to 3 months	5,135	29,891
From 3 to 12 months	35,764	35,803
From 1 to 5 years	98,290	25,740
Over 5 years	132	74,070
Receivables overdue	**5,237**	**7,526**
Total receivables	**160,036**	**189,024**

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations at maturity. The Company manages liquidity to ensure that the funds will be always available at maturity of liabilities, in both normal and abnormal conditions. The Company plans cash flows that are revised at occurrence of risk events and externalities for liquidity risk management with operational resources. The Company afterwards evaluate the progress in real cash flows.

The following table shows loans and Company's payables by maturity period (payables do not include accounts of subsidies and accruals):

	Loans and borrowings		Payables	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Payables within maturity	**62,745**	**62,745**	**257,758**	**219,648**
On demand	0	0	0	0
Up to 1 month	2	1	40,587	44,869
From 1 to 3 months	0	0	20,781	18,757
From 3 to 12 months	2	2	53,442	35,740
From 1 to 5 years	62,741	62,742	58,370	47,644
Over 5 years	0	0	84,578	72,638
Payables overdue	**0**	**0**	**265**	**505**
Total payables	**62,745**	**62,745**	**258,023**	**220,153**

Market risk

Interest rate risk

Operating income and operating cash flows are independent of changes in market interest rates. The Company has no significant interest bearing assets except for cash and cash equivalents.

Company's bank loan has a floating interest rate bound to the 6-month EURIBOR. The Company does not use derivative financial instruments for securing interest rate risks.

Sensitivity analysis to interest rate risk

Sensitivity analysis is prepared assuming that the amount of liability outstanding as at the reporting date will be outstanding for the whole year. Change in 6-month Euribor by +1% / 6-month Euribor at zero level, respectively with negative value, which payables against the bank bearing the interest rate would be equal to margin, provided that the other variables remain unchanged, the profit of the Company changes as follows:

Increase (decrease) of interest rate in % p. a.	Impact on profit before tax for 1 year period in € '000
6ME + 1 % / 6ME rate = 0 % p. a.	-638/no impact

As at 31 December 2016 there have been no changes in methods and assumptions from the previous period. The Company applied the reduction of margin on existing bank loan in calculating.

Managing capital risk

The aim of the Company upon capital risk management is to ensure ability of the Company to continue as a going concern and keep reasonable capital structure while decreasing costs. Managing capital risk is directly ensured by top management.

The gearing ratio at year-end:

	31 December 2016	31 December 2015
Debt (Note 14)	62,745	62,745
Cash and cash equivalents (Note 12)	78,809	35,356
Net debt	-16,064	27,389
Equity	1,678,479	1,648,189
Ratio Net debt to Equity	**0.00%**	**1.66%**

4 PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings	Machinery, Equipment and other assets	Assets acquisition	Total
Cost				
As at 1 January 2015	**4,273,807**	**886,935**	**614,868**	**5,775,610**
Additions	14,019	5,164	305,552	324,735
Disposals	-13,690	-22,661	-31,434	-67,785
Transfers	148,527	56,482	-205,009	0
Transfer to investments in real estate (Note 5)	-2,433	0	0	-2,433
Transfer from investments in real estate (Note 5)	3,248	0	0	3,248
As at 31 December 2015	**4,423,478**	**925,920**	**683,977**	**6,033,375**
Accumulated depreciation / Impairment				
As at 1 January 2015	**1,919,134**	**674,801**	**28,284**	**2,622,219**
Additions	98,822	56,758	3,538	159,118
Disposals	-7,702	-22,434	-8,518	-38,654
Transfers	3,552	10,265	0	13,817
As at 31 December 2015	**2,013,806**	**719,390**	**23,304**	**2,756,500**
Net book value				
As at 1 January 2015	**2,354,673**	**212,134**	**586,584**	**3,153,391**
As at 31 December 2015	**2,409,672**	**206,530**	**660,673**	**3,276,875**
Cost				
As at 1 January 2016	**4,423,478**	**925,920**	**683,977**	**6,033,375**
Additions	38,769	3,617	147,642	190,028
Disposals	-15,341	-30,065	-19,449	-64,855
Transfers	142,374	120,591	-262,965	0
Transfer to investments in real estate (Note 5)	-3,597	0	0	-3,597
Transfer from investments in real estate (Note 5)	4,490	0	0	4,490
As at 31 December 2016	**4,590,173**	**1,020,063**	**549,205**	**6,159,441**
Accumulated depreciation / Impairment				
As at 1 January 2016	**2,013,806**	**719,390**	**23,304**	**2,756,500**
Additions	102,916	49,940	1,583	154,439
Disposals	-7,046	-29,637	-2,653	-39,336
Transfers	4,802	19,809	0	24,611
As at 31 December 2016	**2,114,478**	**759,502**	**22,234**	**2,896,214**
Net book value				
As at 1 January 2016	**2,409,672**	**206,530**	**660,673**	**3,276,875**
As at 31 December 2016	**2,475,695**	**260,561**	**526,971**	**3,263,227**

The Company administers land that is still subject to the resolution of title claims and which had an administrative value assigned to it by the State of € 39,207 thousand (as at 31 December 2015: € 53,569 thousand) and which is not reflected in the Company's statement of financial position. The Company is actively engaged in resolving these claims. During 2016 title to land with an administrative value of € 2,223 thousand was transferred to the Company and capitalized in its statement of financial position (as at 31 December 2015: € 4,806 thousand). In addition, administrative values assigned to land already reflected in the Company's statement of financial position were revised upward by an amount of € 24,497 thousand (as at 31 December 2015: € 2,117 thousand). These adjustments are recorded directly to Capital funds in Equity by calculating the general book value of land. This is the land acquired under the register of renewed land registration carried out by Land Register where the landowner has always been the Slovak republic, the land manager has always been the Company but the land has not been recorded in the Company's assets. The Company also manages land in the amount of € 31,878 thousand reported on acquisition account and the Company is heavily involved with their transfer into use. During the year 2016, land were transferred into use in the amount of € 4,562 thousand (as at 31 December 2015: € 11,287 thousand).

The Company reports on acquisition account constructions in the amount of € 109,003 thousand, of which from subsidies in the amount of € 105,759 thousand and from own resources in the amount of € 3,244 thousand, that are in use since 2013. The Company is intensively engaged in their reclassification into use, followed by applying depreciation. The Company considered reality of valuation of these assets and because of precautionary principle recorded allowance in the amount of expected depreciation of assets acquired from own resources in the amount of € 739 thousand, reported in table "Progress in allowances for property, plant and equipment.

Finance lease liabilities (Note 14) of the Company are protected by lessor ownership rights to the leased assets with a book value of € 5 thousand (as at 31 December 2015: € 6 thousand).

Acquisition cost of all fully written off property, plant and equipment that are utilized by the Company as at 31 December 2016 is in the amount of € 1,473,215 thousand (as at 31 December 2015: € 1,393,487 thousand). Temporary unused assets in original cost are in the amount of € 28,726 thousand (as at 31 December 2015: € 31,061 thousand) and in carrying value in the amount of € 17,464 thousand (as at 31 December 2015: € 17,262 thousand).

The Company considered reality of valuation of assets and liabilities as at 31 December 2016. Following determined facts about reality of assets valuation that indicated assets impairment, recoverable amount has been determined. Recoverable amount (higher value of its fair value less costs to sell and value in use) was defined by the expert´s opinion or assessment at individual assets.

Progress in allowances for property, plant and equipment:

Allowances	Land and Buildings	Machinery, Equipment and other assets	Assets acquisition	Total
As at 1 January 2015	**3,389**	**0**	**28,284**	**31,673**
Creation	1,651	208	3,538	5,397
Reversal	0	0	-6,702	-6,702
Reversal of impairment loss	-297	0	-1,816	-2,113
As at 31 December 2015	**4,743**	**208**	**23,304**	**28,255**
As at 1 January 2016	**4,743**	**208**	**23,304**	**28,255**
Creation	371	26	1,583	1,980
Reversal	0	0	-1,052	-1,052
Reversal of impairment loss	-822	-191	-1,601	-2,614
As at 31 December 2016	**4,292**	**43**	**22,234**	**26,569**

ŽSR has insured its assets (real estate, tangibles) with various types of insurance and up to various insurance amounts (maximum annual insurance claim is in the amount of € 40,000 thousand for natural hazards with the exception of floods). ŽSR have also liability insurance (annual benefit limit is € 1,660 thousand).

5 REAL ESTATE INVESTMENTS

	Year 2016	Year 2015
Cost		
As at 1 January	**53,544**	**54,735**
Additions	0	0
Disposals	-307	-376
Transfer from Property, Plant and Equipment (Note 4)	3,597	2,433
Transfer to Property, Plant and Equipment (Note 4)	-4,490	-3,248
As at 31 December	**52,344**	**53,544**
Accumulated depreciation / Impairment		
As at 1 January	**19,010**	**18,495**
Additions	971	951
Disposals	-117	-96
Transfers	-1,495	-340
As at 31 December	**18,369**	**19,010**
Net book value		
As at 1 January	**34,534**	**36,240**
As at 31 December	**33,975**	**34,534**

The following table presents assets disclosed at fair value.

Assets	Level 1	Level 2	Level 3
Hospital	0	0	18,560
Land	0	0	50,273
Building	0	0	13,269

Real estate investments are recorded estate properties rented as a whole or offered for rent, for instance hospitals and clinics, apartment buildings and offices, hostels, guard houses, garages, stops and land related.

The different levels have been defined as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities,
Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly,
Level 3 – inputs for the asset or liability that are not based on observable market data.

Valuation techniques used to derive fair values at the level 3

The fair value of real estate investment at level 3 as at 31 December 2016 is in the amount of € 82,102 thousand (as at 31 December 2015: € 60,167 thousand). All appropriate method were used to determine the fair value of the investment, in the case of expert property valuation, objectification method expertly determined general value of the relevant assets was primarily used. This method was used to determine fair value for a total 777 property items, simplified method of positional differentiation was used for a total 1,271 items, income method was used for a total 601 items and acquisition cost method was used for a total 625 items.

The fair value of buildings was determined by time value method for a total 427 items, simplified income method for a total 107 items, objectification method expertly determined general value for a total 87 items, acquisition cost method for a total 40 items, qualified estimate for a total 63 items and cash-flow method for a total 14 items.

Costs related with real estate investments represent the amount of € 938 thousand (as at 31 December 2015: € 963 thousand) and revenues related with real estate investments represent the amount of € 2,371 thousand (as at 31 December 2015: € 2,357 thousand).

6 INTANGIBLE ASSETS

	Capitalized Development Cost	Software	Acquisition of Assets	Total
Cost				
As at 1 January 2015	**52**	**18,378**	**695**	**19,125**
Additions	0	4,243	4,034	8,277
Disposals	0	-1,087	-3,623	-4,710
Transfers	0	665	-665	0
As at 31 December 2015	**52**	**22,199**	**441**	**22,692**
Accumulated depreciation / Impairment				
As at 1 January 2015	**51**	**14,602**	**29**	**14,682**
Additions	0	1,823	0	1,823
Disposals	0	-1,086	0	-1,086
Transfers	0	0	0	0
As at 31 December 2015	**51**	**15,339**	**29**	**15,419**
Net book value				
As at 1 January 2015	**1**	**3,776**	**666**	**4,443**
As at 31 December 2015	**1**	**6,860**	**412**	**7,273**
Cost				
As at 1 January 2016	**52**	**22,199**	**441**	**22,692**
Additions	0	2,532	5,271	7,803
Disposals	0	-12	-2,517	-2,529
Transfers	0	412	-412	0
As at 31 December 2016	**52**	**25,131**	**2,783**	**27,966**
Accumulated depreciation / Impairment				
As at 1 January 2016	**51**	**15,339**	**29**	**15,419**
Additions	0	2,238	0	2,238
Disposals	0	-12	0	-12
Transfers	0	0	0	0
As at 31 December 2016	**51**	**17,565**	**29**	**17,645**
Net book value				
As at 1 January 2016	**1**	**6,860**	**412**	**7,273**
As at 31 December 2016	**1**	**7,566**	**2,754**	**10,321**

Non-current intangible asset has definite useful life except licence agreement on use of collected work "The History of ŽSR". Useful life on Property, Plant and Equipment is definite; it is specified according to real useful life and for various types of Property, Plant and Equipment in the range from 3 to 25 years.

The Company considered reality of valuation of assets and liabilities as at 31 December 2016. According to IAS 36 – Impairment of Assets, as at 31 December 2016 the Company recorded allowance for assets under construction in the amount of € 29 thousand (as at 31 December 2015: € 29 thousand).

7 FINANCIAL INVESTMENTS

	Subsidiaries	Associated companies	Other investments	Total 2016	Total 2015
Opening balance as at 1 January	**1,009**	**3,740**	**155**	**4,904**	**3,404**
Additions	0	0	0	0	1,500
Disposals	0	0	0	0	0
Closing balance as at 31 December	**1,009**	**3,740**	**155**	**4,904**	**4,904**

Structure of capital participation as at 31 December 2016 is as follows:

Name	Amount of Equity	Profit / Loss	Country of registration	Share of equity in %	Core business
Subsidiaries					
Stabilita, d. d. s., a. s., Košice (Note 40)	5,634	60	Slovakia	55.26	Management of supplementary pension funds
Associated companies					
ŽPSV, a. s., Čaňa (Note 40)	7,092	151	Slovakia	41.06	Manufacturing of concrete products, prefabricated components and structures for construction purposes
Breitspur Planungs GmbH, Wien	5,402*	-1,016*	Austria	25.00	The planning and continuation of rail infrastructure with gauge 1,520 mm from the borders of Ukraine through Slovakia to and in Austria
Other investments					
Betamat, a.s., Zvolen (Note 40)	226	15	Slovakia	10.00	Installation, maintenance, and repair of telecomm. equipment
HIT RAIL, b.v., Amsterdam, Netherland	3,138*	-28*	Netherland	4.00	Implementation of the interconnection of information systems within the UIC

** The company did not supply financial statement as at 31 December 2016 by the date of preparation of Financial Statements, information is presented as at 31 December 2015.*

Ownership interest in companies expresses voting rights and company control.

The Company Stabilita, d. d. s., a. s. has 100% share in subsidiary Stabilita Service, s. r. o. that carries out technical and service activities and provides an economic asset management for the parent company. Other companies do not have any shares in other companies.

8 NON-CURRENT RECEIVABLES

	31 December 2016	31 December 2015
Non-current trade receivables	16,579	18,060
Advances given	7,511	7,504
Receivables from sale of flats	177	232
Other non-current receivables	32	49
State receivable	73,980	73,980
Allowances for receivables	-28,304	-31,173
Total non-current receivables	**69,975**	**68,652**

Receivable from Železničná spoločnosť Cargo Slovakia, a. s. is recorded in non-current trade receivables in the amount of € 16,546 thousand under Appendix No. 5 to Settlement Agreement of Payables. State receivable from Ministry of Transport and Construction of Slovak republic is recorded in the amount of € 73,980 thousand under the Government Resolution of Slovak republic No. 390/2013 and Compensation Agreement on financial impact for the year 2010 for cargo carriers resulting from reduction in charges for access to railway infrastructure.

Progress in allowances for non-current receivables:

Balance as at 31 December 2015	**31,173**
Creation	0
Reversal	-1,369
Reclassify non-current allowances to current allowances	-1,500
Balance as at 31 December 2016	**28,304**

Allowances to non-current receivables are recorded because of precautionary principle. Allowance to Železničná spoločnosť Cargo Slovakia, a. s. was reclassified to current allowances in the amount of € 1,500 thousand. Non-current receivables are through the allowances measured at amortised cost using the effective interest rate method.

9 INVENTORIES

	Cost 2016	Book value 2016	Cost 2015	Book value 2015
Products of engineering and metal industry	4,629	2,279	3,948	1,998
Products of electro-technical industry	3,320	2,003	3,713	1,915
Products of steel industry	1,442	1,228	2,326	1,230
Products of chemical industry	1,040	812	1,171	931
Personal protective equipment and uniforms	604	509	1,038	910
Building materials and products of wood industry	1,420	1,287	387	215
Other materials	614	367	826	493
Total inventories	**13,069**	**8,485**	**13,409**	**7,692**

The Company recorded allowances for slow moving and obsolete inventories following comparison of valuation with net realizable value as at 31 December 2016.

Progress in allowances for inventories:

Balance as at 31 December 2015	**5,717**
Creation	3,112
Disposal of inventories	-146
Dissolution of relevance	-4,099
Balance as at 31 December 2016	**4,584**

10 CURRENT TRADE RECEIVABLES

	31 December 2016	31 December 2015
Trade receivables	26,793	36,158
of which receivables from ZSSK CARGO for the year 2010	10,000	17,500
Advances given	103	104
Other trade receivables	1,621	1,790
Allowances for receivables	-14,825	-24,579
Total current receivables	**13,692**	**13,473**

Overdue receivables are in the amount of € 5,237 thousand (as at 31 December 2015: € 7,526 thousand). Trade receivables are interest-free and generally due from 14 to 60 days (Note 3).

Progress in allowances for bad and doubtful receivables:

	Allowances for bad and doubtful short-term receivables	Of which: Allowances for debtors in bankruptcy
Balance as at 31 December 2015	**24,579**	**3,028**
Creation	272	66
Reclassify from long-term to short-term	1,500	0
Reversal because of receivable write-off	-2,242	-1,760
Reversal because of full or partial collection	-9,284	-83
Balance as at 31 December 2016	**14,825**	**1,251**

11 OTHER RECEIVABLES AND ASSETS

	31 December 2016	31 December 2015
Other receivables	630	618
State receivables	30,944	48,841
Allowances for receivables	-247	-268
Prepaid expenses	1,666	1,688
Total other receivables	**32,993**	**50,879**

The Company recorded claims for capital subsidies for projects Operational Programme Integrated Infrastructure in state receivables in the amount of € 29,454 thousand (as at 31 December 2015: € 26,276 thousand). The amounts payable in 2016 arising from these projects have been temporarily pre-financed from own resources as Contracts for the provision of the grant have not been signed by the end of 2016. The Company pre-financed the amount of € 20,111 thousand. These resources will be refunded after signing the relevant contracts.

In states receivables the Company recorded receivable from excess VAT in the amount of € 1,488 thousand (as at 31 December 2015: € 22,559 thousand).

Progress in allowances for other receivables:

Balance as at 31 December 2015	**268**
Creation	16
Reversal because of receivables write-off	-15
Reversal because of full or partial collection	-22
Balance as at 31 December 2016	**247**

12 CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Cash on hand	543	527
Cash in bank	78,266	28,775
Short-term deposit	0	6,054
Total cash and cash equivalents in statement of financial position	**78,809**	**35,356**
Credit cards	-2	-1
Total cash and cash equivalents in statement of cash flow	**78,807**	**35,355**

Cash and cash equivalents increased mainly due to receiving advance payment financed by the European Union for projects Connecting Europe Facility. The projects are aimed at improving the transport, energy and telecom network in EU in years 2014 – 2020. Advanced payments are allocated for projects "Modernisation of the railway track Devínska Nová Ves – Kúty state border" and „Modernisation of railway track Žilina – Košice, track section Liptovský Mikuláš – Poprad Tatry (except), phase I. Resources from capital transfer and Operational Programme Transport, that were temporarily financed from own resources in previous periods, were refunded during the year 2016.

Interest rates on current accounts in banks located in Slovak republic and branches of foreign banks in Slovak republic significantly reduced during the year and ranged from 0.00 % p.a. to 0.15 % p.a. at the end of the reporting period. Due to persistently low interest rates in the financial market, the Company has no other option to valorise temporarily free funds.

13 REGISTERED CAPITAL

Registered capital represents the State's investment in the Company in the form of cash and assets.

Total capital is in the amount of € 760,234 thousand (as at 31 December 2015: € 760,234 thousand) of which registered capital is in the amount of € 800,170 thousand (as at 31 December 2015: € 800,170 thousand) and unregistered changes in capital are in the amount of € -39,936 thousand (as at 31 December 2015: € -39,936 thousand).

Based on the Administrative Board Decision dated 14 April 2016 , profit from previous accounting period in the amount of € 17,189 thousand was used to retained earnings from previous years.

Capital funds includes capital contributions that do not increase share capital of the Company. The state studies the legal title and the value of the land managed by the Company and on the basis of which periodically adds assets to the Company and corrects administrative values. During the year 2016, claims in the amount of € 26,720 thousand (as at 31 December 2015: € 6,923 thousand). Capital funds also includes re-measurements of post-employment benefits in accordance with IAS 19 based on projected actuarial valuation method and deferred tax related to re-measurements of post-employment benefits.

The legal reserve fund is created in accordance with Act No. 258/1993 Coll. §15 as amended and supplemented by the amount of at least 5 % of earnings, up to a maximum of 5 % of the value of the assets the Company has right manage with, less the value of the railway infrastructure. The carrying value of the managed assets less the value of the railway infrastructure as at 31 December 2016 is in the amount of € 176,452 thousand (as at 31 December 2015: € 177,635 thousand). Reserve fund is in the amount of € 21,904 thousand (as at 31 December 2015: € 21,904 thousand) which represent more than 5 % of the value of assets less the value of railway infrastructure.

14 LOANS

	31 December 2016	31 December 2015
Short-term loans and current portion of long-term loans		
Interest on loans	1	1
Credit cards	2	1
Short-term finance lease	1	1
Total Short-term loans and current portion of long-term loans	**4**	**3**
Loans		
Euro		
6ME + margin, maturity 3 October 2019	62,740	62,740
	62,740	**62,740**
Long-term finance lease	**1**	**2**
Total Long-term loans	**62,741**	**62,742**
Total loans	**62,745**	**62,745**

The Company reports bank loan as at 31 December 2016 in the amount of € 62,740 thousand (as at 31 December 2015: € 62,740 thousand) provided from reputable bank in Slovak republic, without security, bearing interest with floating interest rate linked to the 6-month Euribor (Note 3). Part of the loan agreement is a commitment of the Company to comply with certain loan covenants.

In 2016 the Company due to lower interest rates in the banking market refinanced existing bank loan. The interest costs are in the amount of € 188 thousand for the year 2016 (for the year 2015: € 335 thousand).

Finance lease is drawn on electric motor unit with the lease period 10 years. Finance lease liabilities of the Company are secured by ownership rights of the lessor to leased assets (Note 4).

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
Up to 1 year	0	0	1	1
From 1 to 5 years	2	3	1	2
5 years and more	0	0	0	0
	2	**3**	**2**	**3**
Less future finance costs	0	0	0	0
Present value of minimum lease payments	**2**	**3**	**2**	**3**
Disclosed in the Statement of financial position:				
Short-term finance lease	0	0	1	1
Long-term finance lease	0	0	1	2

Fair value of finance lease liabilities equals their book value.

15 STATE AND EU SUBSIDIES

In 2016 the Company drew capital subsidies from the state budged under contract of category of budget of Ministry of Transport in the amount of € 38,320 thousand. From the above transfer, investment projects "Construction and renovation of railway network" and "Co-financing of eligible costs and ineligible costs" were provided.

During the year 2016, within the project Operational Programme Transport, the Company drew capital subsidies from priority axis No. 1 for modernization of railway infrastructure in the amount of € 8,652 thousand, from priority axis No. 3 for intermodal transport infrastructure in the amount of € 1,772 thousand and from priority axis No. 4 for infrastructure of integrated transport systems in the amount of € 550 thousand.

There were no subsidies from Operational Programme Integrated Infrastructure as Contracts for the provision of the grant have not been signed by the end of 2016. The amount payable in 2016 arising from capital investments, approved under Operational Programme Integrated Infrastructure, have been temporarily pre-financed from own resources in the amount of € 20,111 thousand. These resources will be refunded after signing the relevant contracts.

	31 December 2016	**31 December 2015**
Investment subsidies from EU – State Budget funds	168,662	176,991
Investment subsidies from EU – EU funds	705,134	754,095
Investment subsidies – ISPA program - State Budget funds	109,670	116,142
Investment subsidies – ISPA program - EU funds	54,763	61,604
Investment subsidies – others	377,139	360,289
Investment subsidies – buildings	51,282	51,282
Operating subsidies – unbilled	184	3
Subsidy – share repurchase	3,025	3,025
Investment subsidy – claim	29,455	26,276
Total state and EU subsidies	**1,499,314**	**1,549,707**
of which short-term portion	**79,537**	**60,865**

16 ACCRUALS

	31 December 2016	31 December 2015
Received free of charge depreciable non-current asset	14,321	15,163
Other accrued income	740	740
Prepaid expenses	12	11
Total accruals	**15,073**	**15,914**

17 PROVISIONS

	31 December 2016	31 December 2015
Environmental burden – long-term portion	41,537	44,035
– short-term portion	1,074	606
Legal claims	2,752	2,865
Provisions for demolition of buildings	1,948	1,053
Total provisions	**47,311**	**48,559**

Progress in provisions:

	Environmental burden provision	Provision for legal claims	Provisions for demolition of buildings	Total provisions
Balance as at 31 December 2015	**44,641**	**2,865**	**1,053**	**48,559**
Creation	1,026	139	1,289	2,454
Interest expense	47	0	0	47
Interest income	56	0	0	56
Cancellation as not justified	2,310	162	148	2,620
Reversal due to provision drawing	737	90	246	1,073
Balance as at 31 December 2016	**42,611**	**2,752**	**1,948**	**47,311**

Environmental burden provision

The Company recorded a provision for estimated costs relating to remedy former environmental damages caused by soil and ground water pollution. The amount of the provision has been determined on the basis of an estimate prepared by the Company's internal environmental team. The estimate of Company's environmental burden is based on existing technology and actual prices, whereas drawing of the provision is forecasted within a timeline of the next 1 – 15 years. In 2016, there has been continuation of the elimination of old environmental burdens in Čierna nad Tisou from the Company's resources. In accordance with environmental rules the Company performed revision of created provision. For some localities, estimated costs for the removal of environmental burden has been reviewed. In 2016 new environmental burdens were identified and the Company recorded provision in the amount of € 814 thousand. The Company is applying for EU funds to fund these costs. Long-term portion of provision is calculated by a fixed interest rate of 2.0 % as at 31 December 2016 (as at 31 December 2015: 2.0 %).

Interests from discounting as a result of the passage of time are in the amount of € 47 thousand (as at 31 December 2015: € 122 thousand), interest income is in the amount of € 56 thousand (as at 31 December 2015: € 59 thousand) (Note 36).

Provision for legal claims

Reported amounts represent provision for certain legal claims raised against the Company by its contracting parties. Management believes, after consultations with internal lawyers, that no significant liabilities will arise as a result of raising these legal claims, except for those for which the provision has been created. After reviewing of the evidence, the management of the Company presumes, it is probable as a result of settlement of legal claims, that the Company will have to incur financial resources in the amount of € 2,752 thousand (as at 31 December 2015: € 2,865 thousand).

Provision for legal claims is not discounted because the time of termination of proceedings is not known.

Provision for demolition of buildings

In accordance with the principles for provisions, as at 31 December 2016 the Company recorded provision in the amount of future costs for demolition of buildings and operating equipment.

The amount of provision has been determined on the basis of an expert estimate of costs to perform demolition, including related costs for landscaping. Provision as at 31 December 2016 is in the amount of € 1,948 thousand (as at 31 December 2015: € 1,053 thousand).

Provision relates to buildings - objects such as guard houses, railway stations, warehouses, signal boxes, traction lines and others whose poor technical conditions does not enable its operational use, moreover threatens public safety. Its disposal will be carried out by own activity (gradual dismantling, using the mechanism) or by supplier – authorized person providing professional leadership and hazardous waste disposal (e.g. asbestos etc.).

18 EMPLOYEE BENEFITS

	31 December 2016	31 December 2015
Employee benefit - long-term portion	42,512	33,563
- short-term portion	2,230	2,118
Total employee benefit	**44,742**	**35,681**

Progress in employee benefit:

	Year 2016	Year 2015
Balance as at 1 January	**35,681**	**34,442**
Creation	5,814	1,742
of which creation of short-term provision	2,230	2,118
of which +creation/ -decrease of long-term provision	3,584	-376
Reversal due to provision drawing	2,118	1,951
Dissolution due to unrealized provision	0	212
Re-measurement of post-employment benefit	5,365	1,660
Balance as at 31 December	**44,742**	**35,681**

Employee benefit provision

As at 31 December 2016 the Company recorded a provision in the amount of € 44,742 thousand (as at 31 December 2015: € 35,681 thousand) for covering an estimated liability relating to bonus upon retirement or disabled retirement, bonus upon life and work jubilees and compensating contribution due to decrease in health capability of an employee (Note 33).

The Company has defined benefit plans for its employees. Employee benefit provision increased mainly due to change in Company's Collective Labour Agreement effective from 1 March 2017, where new benefits have been added; reaching age of 50 and 60 years, worked 30 – 35 years amounting to € 600, worked over 35 years amounting to € 700, and higher bonus upon retirement in the amount of € 100 for every year worked.

None of these programs is financially independent. The amount of the provision has been determined by using projected unit credit method based on financial and actuarial variables and assumptions which are reflections of official statistical data and are in accordance with the Company's business plan assumptions.

The Company does not have prepared any detailed plan to reduce the number of employees as at the day of preparation of financial statements.

Main actuarial assumptions used:

Discount rate	1.6 % p. a.
Future salary increases	in 2017 by 3.33 % p. a., in 2018 and in subsequent years by 5 % p. a.
Mortality	Mortality of the Slovak population based on the mortality tables issued by the Statistical office of the Slovak Republic from 2008-2012

Description of the risks

The Company has no assets to cover liability and thus avoids the risk of investing funds, on the other hand, there is no valorisation of assets to cover liabilities.

Amount of sensitivity of „employment benefits“ to assumptions

- change in discount by +1 % for all subsequent years, provided that the other assumptions in calculation remain unchanged, results in decrease of liability by 9.49 %;
- change in wage by +1 % for all subsequent years, provided that the other assumptions in calculation remain unchanged, results in increase of liability by 3.61 %;
- decrease of fluctuation by 10 % for all subsequent years, provided that the other assumptions in calculation remain unchanged, results in increase of liability by 0.78 %;
- decrease in mortality assumptions by 10 % for all subsequent years, provided that the other assumptions in calculation remain unchanged, results in increase of liability by 1.11 %.

The structure of employee benefit costs

	Employment benefits	Post-employment benefits	Total
Balance as at 31 December 2015	**5,495**	**30,186**	**35,681**
Current and past service cost	**1,611**	**4,119**	**5,730**
current service cost	248	1,278	1,526
past service cost	1,363	2,841	4,204
Interest expense	**132**	**724**	**856**
Re-measurements	**357**	**5,365**	**5,722**
- changes in demographic assumptions	0	0	0
- changes in financial assumptions	313	4,537	4,850
- resulting from practice	44	828	872
Payments program (benefits paid)	**-545**	**-2,702**	**-3,247**
Balance as at 31 December 2016	**7,050**	**37,692**	**44,742**

The average maturity of employment benefits is 7.57 years, future benefits is 11.61 years and the average maturity of post-employment benefits is 10.38 years, future benefits is 15.57 years.

Re-measurements of post-employment benefit in the amount of € 5,365 thousand are disclosed in equity and other comprehensive income.

19 OTHER NON-CURRENT LIABILITIES

	31 December 2016	31 December 2015
Social fund liabilities	561	744
Other non-current liabilities	2,888	2,942
Investment subsidy CEF - advance	13,379	0
Total other non-current liabilities	**16,828**	**3,686**

In 2018, advance payment of CEF project will be used to fund constructions approved under CEF project.

Structure of social fund:

	Year 2016	Year 2015
Balance of fund as at 1 January	**744**	**881**
Creation	1,448	1,897
of which creation from retained earnings	0	500
Spending	1,631	2,034
Balance as at 31 December	**561**	**744**

20 CURRENT TRADE PAYABLES

	31 December 2016	31 December 2015
Trade payables	74,979	70,581
Advances received	1,529	1,889
Other payables	549	991
Total current payables	**77,057**	**73,461**

Of the total amount of trade payables, the Company recorded investment payables in the amount of € 37,547 thousand (as at 31 December 2015: € 35,516 thousand) and operating payables in the amount of € 21,077 thousand (as at 31 December 2015: € 20,879 thousand). The rest in the amount of € 18,433 thousand (as at 31 December 2015: € 17,066 thousand) represents provisions for investment and operating expenses.

21 PAYABLES TO PUBLIC INSTITUTIONS

	31 December 2016	31 December 2015
Payables to insurance companies	7,150	7,084
Payables to tax authorities	1,471	1,418
Total payables to public institutions	**8,621**	**8,502**

22 OTHER PAYABLES

	31 December 2016	31 December 2015
Employees	14,188	13,959
Investment subsidy CEF - advance	9,468	0
Other payables	489	161
Total other payables	**24,145**	**14,120**

23 SALES OF OPERATION OF RAILWAY INRASTRUCTURE

Fees for access to railway infrastructure represent the allocation of infrastructure capacity for service – freight / passenger transport on railway network under Contract for access to railway infrastructure. Infrastructure capacity means the potential to schedule train paths for a certain period on certain section of railway track.

	31 December 2016	31 December 2015
Fees for access to railway infrastructure – cargo transport	28,469	27,231
– passenger transport	52,495	52,170
Total fees for access to railway infrastructure	**80,964**	**79,401**

Sales of additional services of shunting and technical office are separated from the fee for access to railway infrastructure, i. e. unregulated and charged separately to railway companies.

	31 December 2016	31 December 2015
Sales of additional services of railway infrastr. – cargo	5,918	5,906
– passenger	4,375	4,358
Total sales of additional services of railway infrastructure	**10,293**	**10,264**

As at 31 December 2016, the total number of railway carriers is 37, herein the number of Slovak carriers is 25 and the number of foreign carriers is 12; the number of carriers for passenger transport is 6 and the number of carriers for freight transport is 31.

24 SUBSIDY FOR RAILWAY INFRASTRUCTURE OPERATION

In accordance with the Operation of the Railway Infrastructure Contract for the year 2014 – 2016 concluded between Ministry of Transport and ŽSR, the Company received operational subsidy to cover fixed portion of economic allowed costs in the amount of € 250,000 thousand in 2016 and will be evaluated within the half of 2017. Operation of the Railway Infrastructure Contract for the year 2015 was evaluated on 1 July 2016, resulted to return of funds in the amount of € 19 thousand to the account of Ministry of Transport.

Under the Government Resolution of Slovak republic No. 390/2013 and valid Operation of Railway Infrastructure Contract, compensation of financial impact was provided to the Company, associated with reduction in charges for access to railway infrastructure for cargo carriers. The compensation was complied with the condition of application of non-discriminatory access to rail cargo carriers and cleared in accordance with the terms of the contract.

	31 December 2016	31 December 2015
Subsidies for railway infrastructure operation	250,000	250,000
Evaluation of Operation of the Railway Infrastructure Contract	-19	0
Compensation from the reduction of fees for access	22,500	22,478
Total subsidies and compensation for railway infrastructure operation	**272,481**	**272,478**

25 ELECTRIC ENERGY

ŽSR provides sales and distribution of electricity and gas for internal and external customers. The Company is also sole supplier of track energy for carriers using traction unit of electric traction.

	31 December 2016	31 December 2015
Sales of track energy	24,122	28,522
Sales of distribution of track energy	36,912	35,718
Sales of non-track energy	1,557	1,656
Sales of distribution of non-track energy	2,171	2,091
Sales of energy – national nuclear fund	1,542	1,545
Total sales of track energy	**66,304**	**69,532**

26 TELECOMMUNICATIONS SERVICES AND INFORMATICS

ŽSR provides data, voice, internet services and rental of digital circuits and network; operation of communication infrastructure including terminals, main and backup data centres, data warehousing, international data exchange and customer service.

	31 December 2016	31 December 2015
Sales of IT services	2,797	3,086
Sales of telecommunication services – data	1,725	1,981
Sales of telecommunication services – voice	404	505
Sales of telecommunication services – others	462	476
Total sales of telecommunication services and informatics	**5,388**	**6,048**

27 RENT OF PROPERTY

ŽSR provides the possibility of operating lease of buildings, premises, land and service facilities in the district of railway stations and tracks (i.e. space on ticket sales, places for information and commercial services, ramps, cranes, rail scales, etc.). Payments made under operating lease are recognized as revenue evenly throughout the period of the lease.

	31 December 2016	31 December 2015
Revenues from rental of non-residential premises	5,415	5,381
Revenues from rental – land	2,580	2,595
Revenues from rental – residential premises	660	671
Revenues from rental – movable assets	330	322
Profit from disposal of non-current assets	983	1,924
Profit from sale of material	349	386
Total revenues from rental	**10,317**	**11,279**

28 OTHER REVENUES

	31 December 2016	31 December 2015
Sales of trailers turned out and other technical services	1,931	2,638
Sales for heat and steam	1,573	1,759
Sales for training, education	1,396	1,268
Sales of water and sewage charges	700	694
Sales of accommodation services	809	817
Sales of works canteens and catering services	393	394
Own work capitalized	9,098	9,837
Re-earned material	1,731	2,269
Others revenues	3,159	2,783
Total sales of other services	**20,790**	**22,459**

29 NET SALES

	31 December 2016	31 December 2015
Sales of services	179,920	182,749
Sales of goods	46	53
Subsidy in accordance with Operation of railway infrastructure Contract	272,481	272,478
Total net sales	**452,447**	**455,280**

30 MATERIALS AND CONSUMABLES

	31 December 2016	31 December 2015
Consumption of materials and consumables	-22,914	-23,397
Fuel consumption	-4,052	-4,185
Consumption of fixed asset	-1,368	-3,720
Reversals of allowances for inventories	1,132	2,506
Total materials and consumables	**-27,202**	**-28,796**

31 ENERGIES

	31 December 2016	31 December 2015
Electricity	-68,837	-72,046
Gas	-2,326	-2,306
Steam and heat	-3,362	-3,302
Water	-1,467	-1,149
Total energies	**-75,992**	**-78,803**

32 SERVICES

	31 December 2016	31 December 2015
Repairs and maintenance	-17,384	-17,960
Costs of waste disposal	-2,077	-2,613
Costs of cleaning	-3,755	-3,756
Costs of information technology	-1,725	-1,389
Costs for machineries performance with operator	-488	-498
Paid rent and remuneration	-662	-618
Costs of diagnostics, metrology, project documentation, experts opinions	-317	-577
Costs of telecommunication services	-1,237	-1,359
Costs for sewage, sludge disposal	-1,101	-1,010
Materiology costs	-1,744	-1,967
Transportation if not included in the cost	-691	-604
Costs of software and software licences	-38	-326
Guarding, security and investigation services	-814	-853
IT support and consulting costs	-944	-185
of which costs of auditing services	-65	-60
Others	-4,328	-2,867
Total services	**-37,305**	**-36,582**

33 PERSONNEL COSTS

	31 December 2016	31 December 2015
Salary costs	-156,353	-150,066
Social security costs	-59,139	-56,993
Employee benefit provision	-3,697	422
Other personnel costs	-13,899	-13,101
Total personnel costs	**-233,088**	**-219,738**

Average number of employees during the financial year as at 31 December 2016 was 14,008.61 (as at 31 December 2015: 14,018.27) and the Company employed 13,929 employees as at 31 December 2016 (as at 31 December 2015: 14,066 employees) of which manager employees directly responsible of general director 40 (as at 31 December 2015: 40).

34 DEPRECIATION, AMORTIZATION AND IMPAIRMENT

	31 December 2016	31 December 2015
Depreciation and amortization	-179,935	-167,895
Release of subsidy for non-current assets	92,525	76,129
Impairment	1,685	3,418
Total depreciation, amortization and impairment	**-85,725**	**-88,348**

35 OTHER OPERATING COSTS, NET

	31 December 2016	31 December 2015
Reversal of allowances for receivables	12,649	17,924
Fare	-3,894	-3,802
Taxes and fees	-2,832	-2,791
Creation of legal claims provision	112	-40
Settlement of provision for environmental burden	2,021	1,306
Property insurance	-2,316	-2,302
Other costs and revenues	-1,177	-681
Total other operating costs, net	**4,563**	**9,614**

36 OTHER FINANCIAL COSTS AND INCOME

	31 December 2016	31 December 2015
Bank charges	-11	-21
Other financial expenses	-50	-299
Interest income	104	186
Other financial income	305	325
Total other financial costs and income	**348**	**191**

Interest income decreased due to tariff reduction on deposit products in financial market. With a strong negotiating position, the Company managed to maintain a privileged interest on current accounts.

37 CORPORATE INCOME TAX

	31 December 2016	31 December 2015
Profit before tax according to Slovak accounting standards	11,673	28,462
of which theoretical tax at	22 %	22 %
	2,568	6,262
Tax effect of		
Items increasing profit or loss	46,334	39,115
Items decreasing profit or loss	-70,974	-70,332
Tax base (+) / Tax loss (-)	-12,966	-2,755
Deferred tax	-42,066	-39,074
Tax expense	**3**	**3**
Temporary differences arising between the tax bases of assets and their carrying amounts, of which:	**327,113**	**294,922**
Deductible	**-73,307**	**-86,991**
- allowances for property, plant and equipment	-26,598	-28,282
- allowances for receivables	-42,125	-52,992
- allowances for inventories	-4,584	-5,717
Taxable	**400,420**	**381,913**
- property, plant and equipment	391,773	373,201
- income recognized after payment	8,647	8,712
Temporary differences arising between the tax bases of liabilities and their carrying amounts, of which:	**-95,959**	**-87,111**
Deductible	**-95,959**	**-87,111**
- provisions recorded as expenses	-90,356	-85,378
- provisions recorded in equity	-5,365	-1,660
- cost recognized after payment	-238	-73
Taxable	**0**	**0**
Possibility to carry forward tax losses in future	30,841	30,200
Tax rate	22 %	22 %
Deferred tax (+assets / -liabilities):		
- deferred tax at valid tax rate, net	-52,034	-46,084
- deferred tax recorded in equity	1,180	365
- deferred tax from possibility to carry forward tax losses in future	6,785	6,644
Change in income tax rate to	21 %	22 %
Adjustment of deferred tax arising from change in tax rate (+ assets / - liability):		
- adjustment of deferred tax, net	2,365	0
- adjustment of deferred tax recorded in equity	-54	0
- adjustment of deferred tax from possibility to carry forward tax losses in future	-308	0
Total deferred tax (+ assets / -liabilities)	**-42,066**	**-39,074**
Change in deferred tax liability	-2,991	-11,522
recorded in income statement	-3,753	-11,440
recorded in equity	761	-82

In the period of taxation 2016 the Company disclosed tax loss in the amount of € 12,966 thousand (as at 31 December 2015: tax loss € 2,755 thousand). Due to the tax loss, the Company is obliged to pay the licence tax in the amount of € 2,880 under the Act No. 595/2003 Coll. on Income Tax as amended.

Withholding tax on interest in the amount of € 19 thousand was deducted in tax year 2016 (as at 31 December 2015: € 32 thousand).

At the reporting date, the Company recorded deferred tax asset in equity in the amount of € 761 thousand (as at 31 December 2015: deferred tax liability in the amount of € 82 thousand) and deferred tax liability in the income statement in the amount of € 3,753 thousand (as at 31 December 2015: € 11,440 thousand).

38 COMMITMENTS AND CONTINGENCIES

Capital commitments

The Company is engaged in a continuous capital investment program, including projects for environmental improvements, modernization, replacement and expansion, whereby the majority of these objectives is associated with the reduction of regional differences within the EU. The Company's capital expenditure budget for each of the years 2017 – 2019 is set out in the table below:

Year	Track and infrastructure	IT and telecom	Total
2017	217,318	2,711	220,029
2018	250,599	7,400	257,999
2019	212,990	3,900	216,890
Total	**680,907**	**14,011**	**694,918**

39 CONTINGENT ASSETS AND CONTINGENT LIABILITIES

ŽSR registers legal claims for which is not recorded a provision, where termination of the proceedings not in favor of the Company is less than probable.

40 RELATED PARTY TRANSACTIONS

Based on the volume of realized transactions in 2016, the most significant related parties were Železničná spoločnosť Slovensko, a. s., and Železničná spoločnosť Cargo Slovakia, a. s. with the State as the sole shareholder. Fees for access to railway infrastructure from Železničná spoločnosť Slovensko, a. s. represent 14.25 % (as at 31 December 2015: 14.46 %) and from Železničná spoločnosť Cargo Slovakia, a. s. represent 7.46 % (as at 31 December 2015: 7.53 %) of the total revenues for rendered services (Note 23).

Summary of liabilities and receivables is as follows:

	ZSSK CARGO		ZSSK	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Liabilities	117	98	92	62
Receivables	32,258	40,145	2,401	3,856
Allowances	26,559	35,559	0	1

In accordance with the Operation of the Railway Infrastructure Contract, the Company received subsidy to cover fixed portion of economic allowed costs in the amount of € 250,000 thousand in 2016 and will be evaluated within the half of 2017. Operation of the Railway Infrastructure Contract for the year 2015 was evaluated on 1 July 2016, resulted to return of funds in the amount of € 19 thousand to the account of Ministry of Transport. Based on this Contract and under Government Resolution of Slovak republic No. 390/2013 dated 10 July 2013, compensation of financial impact in the amount of € 22,500 thousand was provided to the Company, associated with reduction in charges for access to railway infrastructure for cargo carriers (Note 24).

The Company draws capital subsidies from the state budged under contract of category of budget of Ministry of Transport to modernization and development of railway property (Note 15).

ŽSR executes pension retirement additional insurance via pension funds managed by the subsidiary Stabilita, d. d. s., a. s., with which the employment contract was closed (Note 7). Based on the Collective Labor Agreement, ŽSR contributes for employee´s additional insurance from 2 % up to 5 % from the base of assessment for the calculation of insurance premium. Costs of additional insurance are recorded monthly in personnel costs – total for year 2016 are in the amount of € 3,696 thousand (as at 31 December 2015: € 3,506 thousand).

As at 31 December 2016, the Company records receivables from associated company Železničná priemyselná stavebná výroba, Čaňa in the amount of € 1 thousand (as at 31 December 2015: € 2 thousand) for technical services and training. Revenues for the year 2016 were in the amount of € 12 thousand (as at 31 December 2015: € 20 thousand). As at 31 December 2016 and as at 31 December 2015 the Company records no liabilities to this company (Note 7).

As at 31 December 2016, the Company records no receivables from associated company Betamat, a. s., Zvolen (as at 31 December 2015: € 21 thousand) and records liabilities in the amount of € 426 thousand (as at 31 December 2015: € 97 thousand) for operational performances. Revenues for the year 2016 were in the amount of € 2 thousand (as at 31 December 2015: € 18 thousand) (Note 7).

In 2016 the Company paid out employee benefits in the amount of € 657 thousand (in 2015: € 579 thousand) to the key management of the Company, of this Administrative Board in the amount of € 63 thousand (as at 31 December 2015: € 50 thousand).

The Company as other legal entity (Note 1) is part of the summary financial statements of public accounts of Slovak republic, compiled by Ministry of Finance of Slovak republic (Note 2). Transactions within the consolidation of public accounts are not material, respectively are included in the financial statements (Note 3, Note 8, Note 10, Note 11, Note 15, Note 21, Note 22, Note 24).


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41 EVENTS AFTER THE REPORTING PERIOD

There were no material events in the Company between the end of the reporting period and the date that the financial statements are authorised for issue.

42 APPROVAL OF FINANCIAL STATEMENTS

Financial statements in notes 1 to 42 were prepared and signed on behalf of the Company on 6 March 2017:

Mgr. Martin Erdössy
General Director
statutory authority of the entity

List of signs and abbreviations

a.s.	joint-stock company
BOZP	Occupational Health and Safety
CEF	Connecting Europe Facility
CER	The Community of European Railway and Infrastructure Companies
ČD	Czech Railways
ČR	Czech Republic
DHM	Long-term tangible assets
DNM	Long-term intangible assets
DÚR	Documentation for territorial decision
EON	Economically eligible costs
EOV	Economically eligible revenues
EÚ	European Union
gtkm	gross-tonne kilometre
KF	Cohesion Fund
km	kilometre
ks	piece
m	meter
MÁV	Magyar Államvasutak Zrt – Hungarian State Railways
MDVRR SR	The Ministry of Transport, Construction and Regional Development of the Slovak Republic
MVTV	traction train of overhead contact line
NR SR	National Council of the Slovak Republic
OSŽD	The Organization for Cooperation of Railways
ÖBB	Austrian Federal Railways
PD	Project documentation
PEÚ	pre-electrification adjustments
PKP	Polish State Railways
RNE	Rail Net Europe
VH	Business results
trkm	train kilometre
SR	Slovak Republic
ŠD	State subsidy
ŠR	State budget
TENT	Trans-European Transport Network
TV	overhead contact lines
UAB	all-purpose automatic block
UIC	The International Union of Railways
UZ	Ukrainian Railways
ÚRŽD	The Railway Regulatory Authority
ZC	residual value
ZPŽI	Contract for operation of railway infrastructure
Z. z.	Collection of Laws
ŽI	Railway infrastructure
ŽSR	Železnice Slovenskej republiky
ŽST	railway station
ŽV	railway vehicle

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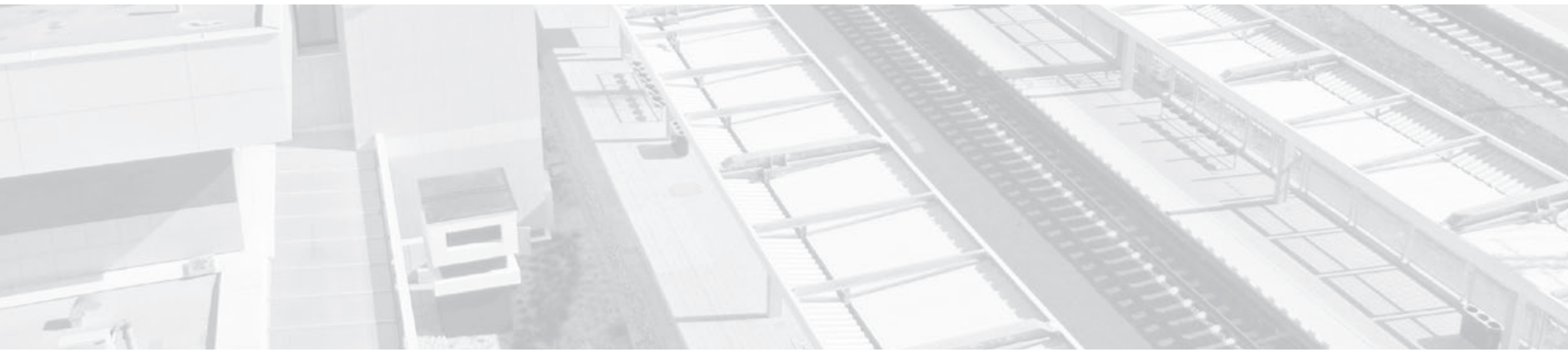

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