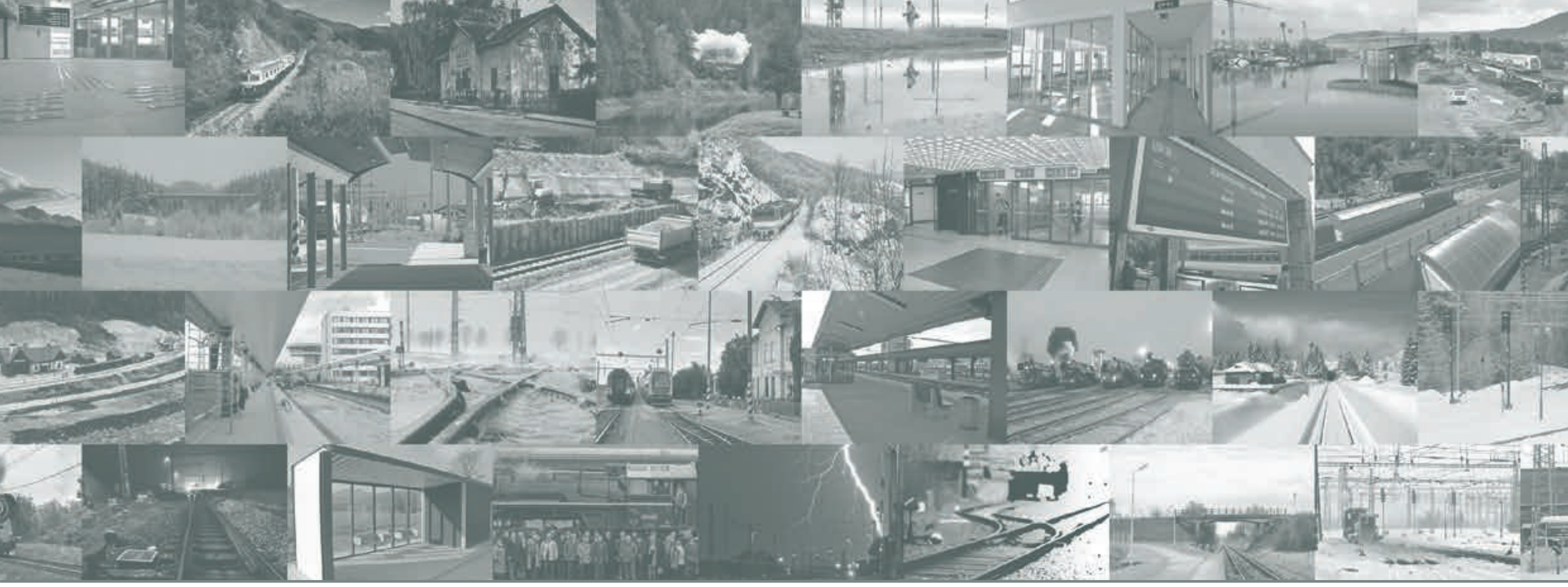

2017 ANNUAL REPORT

ŽELEZNICE SLOVENSKEJ REPUBLIKY

BDR

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, 2017 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, 2017, 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 with respect to its position as manager of infrastructure is exposed to significant credit risk of an individual contractual party, as 36.51 % of receivables as at 31 December 2017 (as at 31 December 2016: 21.66 %) 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.

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:	**Our comments on these risks were as follows:**
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.	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	
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.	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	
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.	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	
Inventories are part of Company's current assets. We have to pay more attention to the verification of their existence during our audit.	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 2017.
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.	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.

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.

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 2017 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 10 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 5, 2018

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.


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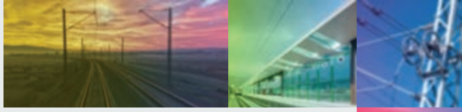
SIEMENS
Vectron
- TATRY



Contents

Foreword by the Director General

Dear ladies and gentlemen, dear business partners and colleagues!

365 days of the rail infrastructure manager is contained in the Annual Report 2017, which outlines in specific numbers a thorough analysis of the whole past year of Železnice Slovenskej republiky. Overall, I would evaluate the year 2017 as very demanding and full of important changes and also obstacles, nevertheless it definitely was a successful year.

From the perspective of 169th year of the history of Železnice Slovenskej republiky I would highlight the three most important aspects.

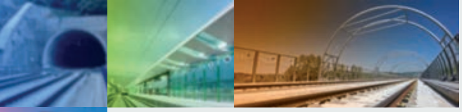
In the first place, in 2017 we managed to fulfil the most important indicator and achieved balanced business results. The year ended in black numbers and even with a slight profit. From the point of view of funding under the contract with the state on the access to railway infrastructure, we managed to receive early claim of EUR 74 million from the state against the planned budget. We used the funds primarily for infrastructure, its renewal and maintenance. Thanks to reasonable investments in the infrastructure modernization, maintenance and renewal and through improved procurement process, we fulfilled the fundamental role of the rail infrastructure manager – to ensure safe and seamless rail transport.

In the context of railway infrastructure modernization, which is another priority of ŽSR, last year we completed two important railway line sections: Zlatovce - Trenčianska Teplá and Považská Teplá – Žilina serving the passengers since October 2017, respectively the latter since December 2017. Other exceptional projects comprise the construction of the Intermodal Transport Terminal in Lužianky as well as the public tender to select the operator of intermodal terminal in Žilina. ŽSR has also been successful in the 2nd and 3rd call for proposals under the CEF funding programme, which mean we have obtained approval to co-finance the modernization of railway lines in the total amount of almost EUR 410 million. The implementation should take place over the next three years.

As a part of another major priority - level crossing safety - we have launched a safety enhancement project concerning 23 level crossings. Over the past year, we invested almost EUR 20 million in repair and reconstruction works on level crossings. We have also been successful in delivering railway station standards, and we have commenced the reconstructions of several railway stations (Lučenec, Rimavská Sobota, Trnava). Passengers will shortly start to benefit from improved railway stations. In the case of the Bratislava Main Station, after ten years we managed to withdraw from a fruitless contract with former investor, and on the contrary we have launched two smaller reconstruction projects from internal funding resources.

The third important area of crucial importance, besides finance, infrastructure management and maintenance, is the field of human resources. During the last year we prepared and delivered a human resources optimization project, we identified and optimized activities that showed duplication. Also controlling and administration were affected by significant changes. On the grounds of process optimization, new organizational units of ŽSR – Asset Management and The Railway Museum of the Slovak Republic – were established on 1 January 2018. Subsequently, we have introduced a new remuneration system, in particular for operating job positions aimed at increasing wages and ensuring fair remuneration in respect of comparable professions in the labour market. This is the only way for the railways to compete in the future with other sectors, which are also struggling with the lack of professionals and the lack of young generation. Within the framework of dual education and scholarship programmes for secondary schools and universities, the top ten high-ranking school and university graduates have already signed contracts with ŽSR, which will become their employer after graduation. The railways are undoubtedly a phenomenon, which this year have already been writing its 170th year of existence in Slovakia. The railways have always run and operated only thanks to people, to the generations of families who have engaged their lives with the railways. Therefore, I would like to thank all my colleagues for their dedicated work, determination, patience, efforts when responding to emergency situations and last but not least for their responsible approach. I would also like to thank the railway undertakings, contractors, suppliers and all business partners, without whom the numbers you will read on the following pages would not be reached.

Mgr. Martin Erdőssy
Director General, ŽSR



Company profile

ŽSR was established by 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. 393/2011 Coll., Act No. 547/2011 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**
- **Efective 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 Act No. 258/1993 Coll. on Železnice Slovenskej republiky as amended by Act No. 152/1997 Coll., Act No. 259/2001 Coll., Act No. 316/2011 Coll., Act No. 547/2011 Coll., Act No. 259/2015 Coll. and Act No. 125/2016 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 2017

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 2017

Mgr. Martin ERDÖSSY	**Director General**
Ing. Igor POLÁK	Deputy Director-General for Development and IT
Ing. Juraj TKÁČ	Deputy Director-General for Economy
Ing. Miroslav KOCÁK	Deputy Director-General for Operation
Pavol HUDÁK, MSc	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. Operation of the railway infrastructure

a) Contract on the railway infrastructure operation - balance

The operation of railway infrastructure in 2017 was performed in compliance with the Contract on the railway infrastructure operation for 2017 - 2021 and its Amendment No. 1 and Amendment No. 2 concluded between ŽSR and the Ministry of Transport, Construction and Regional Development of the Slovak Republic:

- Amendment No. 1 on 12 October 2017,
- Amendment No. 2 on 20 December 2017.

Comparison of parameters of the Contract:

Contract - Balance *(thousand EUR)*	**2017**	**2016**
Costs (Economically Eligible Costs - total)	**376,720**	**372,734**
thereof: Costs of services provided under minimum access package	300,398	298,997
Costs of services provided under track access to service facilities	66,096	63,037
Costs of TIP Žilina and TIOP Moldava nad Bodvou	554	480
Costs of other business activities	9,672	10,220
Revenues (Economically Eligible Revenues - total)	**376,723**	**372,745**
thereof: Reimbursement from the railway infrastructure owner	250,000	250,000
Payment for the access to railway infrastructure	80,959	80,964
Compensation of financial impacts	24,086	22,500
Settlement of adjustment provisions *	11,767	9,000
Revenues from other business activities	9,911	10,281
+ Profit/ - Loss	**3**	**11**

* In 2016, within the evaluation of the balance sheet of the Contract, the settlement of adjustment provisions was reported on the cost side.

Reimbursement from the railway infrastructure owner to cover economically eligible costs related to provision of railway infrastructure services was provided under the applicable Contract on the railway infrastructure operation and covered by the state budget. In year-on-year comparison the amount of subsidy has not been changed.

Economically eligible costs incurred for train operation on the railway infrastructure were covered by railway undertakings - operators in the form of payments for the access to railway infrastructure in accordance with applicable regulatory framework and compensation for reduction of charges for the access to railway infrastructure for rail freight operators.

b) Charges for the access to railway infrastructure

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

The amount of revenues from charges for the access to railway infrastructure was affected by introduction of revised rules on charges for the access to railway infrastructure in terms of Contract on railway infrastructure operation for 2017 - 2021 and Amendment No. 2. In compliance with Article III of the Contract on railway infrastructure operation, ŽSR applied and approved a compensation towards the Ministry of Transport, Construction and Regional Development of the Slovak Republic for reduction of charges for the access to railway infrastructure for rail freight operators, which was provided by the owner of the infrastructure.

Charge *(thousand EUR)* **/ Period**	**2017**	**2016**
Total	**105,045**	**103,464**
thereof Compensation for reduction of charges	*24,086*	*22,500*
thereof: Železničná spoločnosť Slovensko, a. s.	49,090	47,454
Železničná spoločnosť Cargo Slovakia, a. s.	40,201	40,498
other undertakings	15,754	15,512
thereof Passenger transport	3,701	5,041
Freight transport	12,053	10,471

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

In 2017, ŽSR reported revenues from charges for the access to railway infrastructure in the amount of EUR 80,959 thousand, while compensation for reduction of charges amounted to EUR 24,086 thousand. Charges for the access to railway infrastructure including a compensation, reported a share of 58.85 % of overall revenues for own performances and goods, and 22.54 % of overall revenues. In year-on-year comparison we reported increase in revenues by EUR 1,581 thousand, thereof passenger transport grew by EUR 296 thousand, while freight transport grew by EUR 1,285 thousand. In passenger transport the increase was particularly attributed to ZSSK Slovensko, a. s. In freight transport the increase was attributed to various operators (Petrolsped Slovakia, a. s.; CER Slovakia, a. s.; Metrans /Danubia/, a. s. and others).

The railway infrastructure is operated on a non-discriminatory basis to all railway undertakings. In 2017, the railway infrastructure services were provided to 42 railway undertakings as follows:

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

Railway undertaking´s performances

From the year-on-year perspective as compared to 2016 transport performances increased by 909 thousand train-km. Transport performances in passenger transport grew by 460 thousand train-km primarily thanks to the largest operator - ZSSK Slovensko, a. s. (year-on-year growth by 1,115 thousand train-km). In parallel, we reported overall decrease in transport performances of other railway undertakings by 737 thousand train-km, in particular it concerns RegioJet, a. s. and Leo Expres, a. s.

The year-on-year development of performances in freight transport was similar to passenger transport. It is presented by increase of 450 thousand train-km due to application of revised rules on charges for the access to railway infrastructure which takes the form of compensation of financial consequences by the state in terms of the Contract on the railway infrastructure operation for 2017 - 2021 and Amendment No. 2. This stimulus effect has brought a new operator CARBO Rail, s. r. o., along with associated increase in transport performance by 248 thousand train-km. In addition, increased transport performances reported overall growth by 582 thousand train-km, in particular it concerns Petrolsped Slovakia, a. s.; CER Slovakia, a. s.; Metrans /Danubia/, a. s. and other operators which compensated overall decline by 381 thousand train-km in freight transport operations, mainly by operators Prvá Slovenská železničná, a. s., Lokorail, a. s., ZSSK CARGO, a. s., PKP Cargo, S. A.

Performance / Period		2017	2016	Year-on-year increase (%)
Passenger transport	*(thousand train-km)*	35,068	34,608	1.33
	(mil. grtkm)	10,194	10,353	-1.54
Freight transport	*(thousand train-km)*	15,555	15,106	2.97
	(mil. grtkm)	19,189	18,915	1.45
Total	*(thousand train-km)*	**50,623**	**49,714**	**1.83**
	(mil. grtkm)	**29,383**	**29,268**	**0.39**

c) Railway infrastructure

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

Parameter / Year	2017	2016
RAILWAY TRACKS AND STRUCTURES		
Construction length of operated lines *(km)*	3,580	3,580
Construction length of managed lines *(km)*	3,626	3,626
Construction length of lines *(km)*	6,868	6,871
Number of switches	8,415	8,404
Number of bridges	2,301	2,292
Total length of bridges *(m)*	51,216	51,272
Number of tunnels	76	76
Total length of tunnels *(m)*	45,007	45,004

Different number of bridges and its length as compared to 2016 is due to a change in methodology for assessing the structure of parallel bridges.

The year-on-year change in the total length of tunnels was identified by measurement of tunnel lengths carried out in 2017 by the Railway Geodetics Centre, Bratislava.

As can be seen in Figure "Construction length of managed lines" railway lines with suspended service due to poor technical condition are included. Suspended service concerns the following railway lines with total length of 46.692 km:

- 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	2017	2016
SIGNALLING SYSTEM		
Track signalling systems		
Automatic block *(km)*	515	541
Automatic block system *(km)*	492	520
Semi-automatic block *(km)*	591	585
Lines with telephone communication system *(km)*	1,551	1,580
Station signalling systems *(no.)*	480	472
Remote controlled interlocking operated by dispatcher *(km)*	396	377
Train signalling systems *(km)*	732	762
Level crossings *(no.)*	2,102	2,105
Hump signalling systems *(no.)*	218	225

Parameter / Year	2017	2016
ELECTRICAL INSTALLATIONS		
Electrified lines *(km)*	1,588	1,587
Extended length of catenary *(km)*	4,970	4,840
Power supply and switching stations *(no.)*	94	93

Parameter / Year	2017	2016
OPERATING POSTS ON THE NETWORK OF ŽSR		
Operating posts - total	1,020	1,020
Operating posts manned/unmanned	376/644	377/643
thereof:		
Railway stations	297	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)	701	698

The year-on-year change as can be seen in Figure „Operating posts manned/unmanned" results from the construction of the corridor and changes in the organization of transport operations in the scope ŽSR and within the systemization of operating posts.

II. Economic and financial indicators

a) Business Result of ŽSR

In 2017, ŽSR achieved positive business results. The year-on-year development of costs in 2017 was significantly influenced by settlement of adjustment provision to the receivable of ZSSK Cargo Slovakia, a. s., in the amount of EUR 7,500 thousand In terms of the Slovak Government Resolution No. 390/2013 and Agreement on recognition of liability, Amendment No. 6 and the Ministry of Transport and Construction of the Slovak Republic in the amount of EUR 4,267 thousand.

The year-on-year development in revenues was affected by lower purchase costs and revenues from sale of traction and non-traction power (decrease in the purchase price of the commodity compared to the previous year by 2.99 EUR/MWh) and higher utilization of personnel costs in accordance with the applicable Collective Agreement for 2017 - 2018.

(thousand EUR)	2017	2016
Costs	465,981	458,364
Revenues	466,083	466,537
Business Result (+ Profit, - Loss)	**102**	**8,173**
Other comprehensive income components	418	- 4,239
Other comprehensive income (+ Profit,- Loss)	520	3,934

Long-term assets represent 97.05 % of the total assets. The most significant increase in long-term assets is the modernization of railway line Púchov - Žilina, Nové Mesto n/Váhom - Púchov, the Lužianky terminal and IT investments. The receivable against the founder in the amount of EUR 73,980 thousand resulting from Government Resolution No. 390/2013 for compensation for financial consequences in 2010 was fully reimbursed. Short-term assets decreased due to payment of investment subsidy claims for 2016.

Assets of 31 December *(thousand EUR)*	2017	2016
Long-term assets	**3,382,857**	**3,382,402**
thereof:		
Long-term tangible assets	3,331,088	3,263,227
Non-current receivables	345	69,975
Short-term assets	**102,960**	**133,979**
thereof:		
Short-term receivables from commercial activity	12,707	13,692
Inventories	7,911	8,485
Cash and Cash Equivalents	64,003	78,809
Total Assets	**3,485,817**	**3,516,381**

Equity represents 48.20 % of total liabilities. The registered capital was aligned with the state registered in the Business Register of the Slovak Republic by remittance of previous years' profits. Long-term liabilities decreased by EUR 39,062 thousand compared to 31 December 2016 by settlement of investment subsidies to depreciable assets and by remittance to short-term part of subsidies. The investment subsidies received amounted to EUR 63,221 thousand. Short-term liabilities increased by EUR 6,852 thousand compared to 31 December 2016 due to remittance of long-term retained amounts of investments.

Liabilities as of 31 December *(thousand EUR)*	2017	2016
Equity	**1,680,125**	**1,678,479**
thereof: Registered capital	800,170	760,234
Capital funds	527,638	520,228
Long-term liabilities	**1,602,292**	**1,641,354**
thereof: Loans, State and EU subsidies	1,440,687	1,482,518
Short-term liabilities	**203,400**	**196,548**
thereof: Short-term liabilities from commercial activity	85,357	77,057
Total Liabilities	**3,485,817**	**3,516,381**

b) Structure of capital participation in companies as of 31 December 2017

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

* As of 31 December 2017 the capital participation is subject to the sale.

- Stabilita, a complementary pension insurance administration company,
- ŽPSV Čaňa, a construction and assembly works company,
- Breitspur Planungs, a company engaged in preparation of a broad-gauge railway connection project,
- Betamat Zvolen, a company delivering spare parts and assembly of safety installations.

c) Financial indicators

As of 31 December	unit	2017	2016
Business result	*thousand EUR*	**102**	**8,173**
Liquidity Indicators			
Current liquidity		1.74	2.36
Total liquidity – average		1.88	2.52
Expenditure Indicators			
Expenditures	%	99.98	98.25
Salary expenditures	%	34.25	33.51
Indebtedness Indicators			
Self-financing indicators	%	83.39	83.84
Total indebtedness	%	16.61	16.16
Debt-to-equity ratio	%	19.92	19.27
Labour Productivity Indicator			
From revenues	*EUR/empl.*	33,716	33,304
From performance	*trkm/empl.*	3,662	3,549

III. Human Resources

Development of employment in 2017 concerning the number of employees had declining tendency.

Development of employment	2017	2016	Difference (2017 - 2016)	Difference %
Registered headcount as of 31 December	13,781	13,929	-148	-1.06
Average converted number of employees	13,823.73	14,008.61	-185	-1.32

The reduction in the number of employees resulted from organizational changes in relation to the optimization of the number of administrative staff and with increased efficiency of controlling activities and human resources management activities, including the creation of recruitment centres.

Male employees represent 76 % and female employees represent 24 % of the total number of ŽSR employees. In 2017, 912 employees terminated their employment with ŽSR and 763 employees were recruited. 46 graduates were admitted under the „Adaptation programme for graduates of selected schools“.

Age structure

Age structure of employees as of 31 December	2017	% share of employees	2016	% share of employees
up to 20 years of age	17	0.12	14	0.10
20 - 29 years of age	1,271	9.22	1,318	9.46
30 - 39 years of age	1,962	14.24	2,045	14.69
40 - 49 years of age	4,462	32.38	4,626	33.21
50 - 59 years of age	5,254	38.13	5,254	37.72
over 60 years of age	815	5.91	672	4.82
ŽSR - total	**13,781**	**100.00**	**13,929**	**100.00**

The average age of all ŽSR employees was 46.73 years of age and from the perspective of long-term average no substantial change in the age structure of employees was registered. Increased number of employees over 60 years of age is a consequence of gradual increase of retirement age in the Slovak Republic.

Education structure

Education structure of employees as of 31 December	2017	2016
Elementary education	343	373
Secondary education	3,557	3,606
Complete secondary education	7,344	7,381
University education	2,537	2,569
ŽSR - total	**13,781**	**13,929**

The education structure of employees reported no significant change in percentage comparison of individual levels of education in comparison with the previous year.

ŽSR provides education of employees in relation to the acquisition and maintenance of professional competence in accordance with external legislation, as well as upgrading and updating education in the framework of the lifelong training of employees. ŽSR continued to be one of the leaders in dual education in 2017 and started a scholarship program with partner secondary schools and universities.

Collective bargaining

There are 12 trade union organizations active in ŽSR. The Collective Agreement for 2017 - 2018 effective from 1 March 2017 contains agreed increase of monthly tariff salaries by EUR 35. In the course of 2017, collective bargaining on a new remuneration system started and took into account demanding nature of operational work activities, as well as requirements for professional competence and career growth of employees.

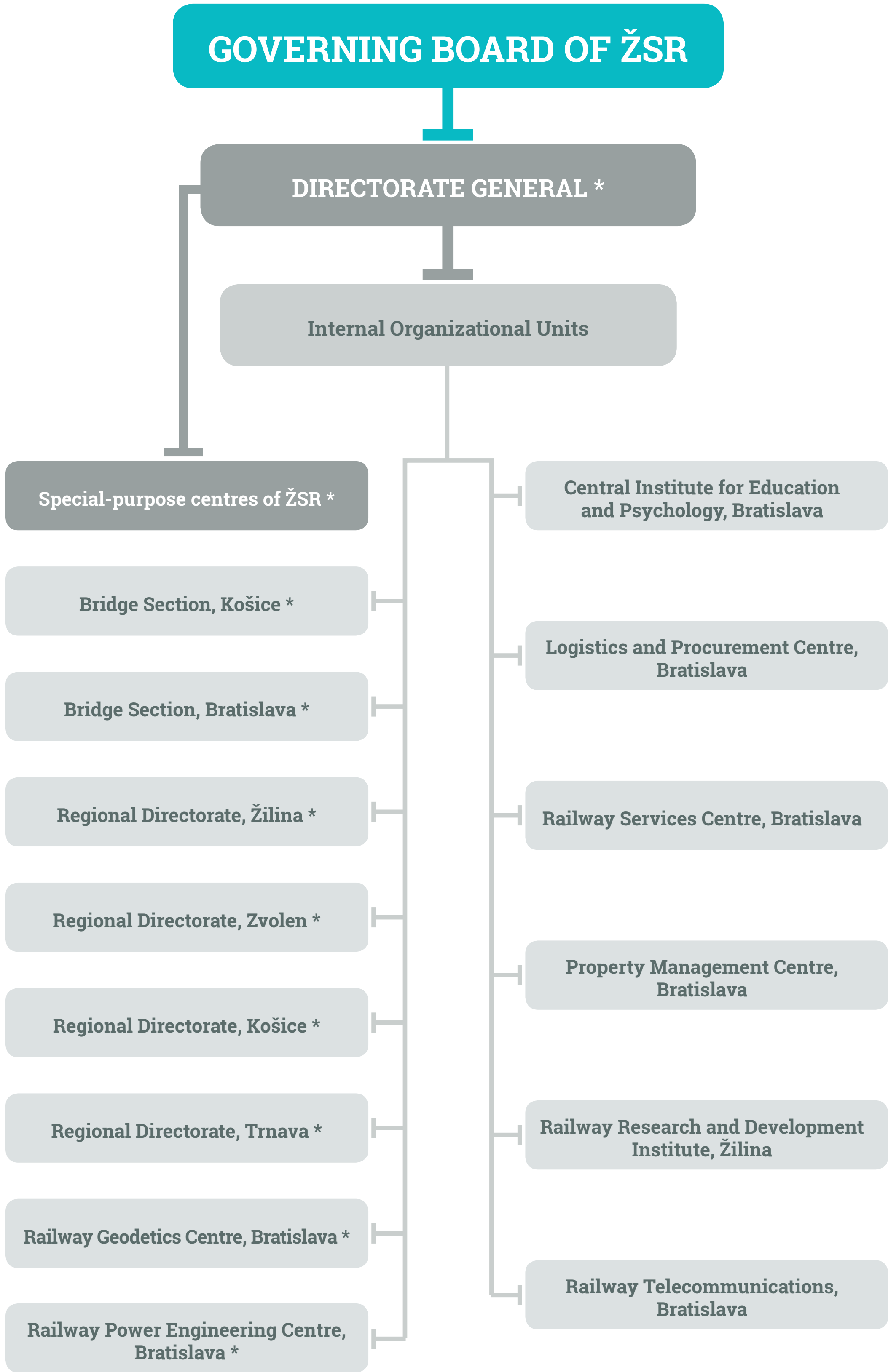
Selected benefits provided to ŽSR employees in 2017

- Contribution to complementary pension savings scheme in the amount of EUR 3,836 thousand,
- Contribution to life insurance DYNAMIK Ž in the amount of EUR 955 thousand,
- Reconditioning stays for selected operational positions in the amount of EUR 254 thousand,
- Provision of work leave with wage compensation under the ŽSR Collective Agreement:
  - in order to improve family care in the amount of EUR 86 thousand,
  - in the event of major personal obstacles in the amount of EUR 3,753 thousand,
- Contributions to staff and retired staff meal plan in the amount of EUR 4,962 thousand.

Human rights observation

Železnice Slovenskej republiky observes the human rights, the principles of equal treatment and the prohibition of illegal employment. The principle of equal treatment is applied in all internal management rules.

Organizational structure of Železnice Slovenskej republiky as of 31 December 2017



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

Železnice Slovenskej republiky had no independent organizational unit abroad in 2017.

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 inspection activities aimed at observing safe working practices in relation to work activities, use of prescribed and assigned personal protective work equipment, adherence to the work discipline and other obligations arising from internal regulations, decrees and laws. ŽSR performs complex inspections of workplaces to determine the working environment and working conditions from the point of view of health and safety at work and assess its impact on the health of employees in all ŽSR workplaces and facilities. Simultaneously, according to the cited law, it is the duty of the employer to investigate the causes of accidents at work, occupational diseases and occupational disease threats, to monitor the number and severity of occupational injuries and to perform necessary analyses of the state and development of occupational injuries, occupational diseases and occupational disease threats in order to adopt measures aimed at preventing or limiting the recurrence of similar events and to improve the state of occupational safety and health protection at work.

Accidents on the network of ŽSR

Type of accident	2017 Total / ŽSR	2016 Total / ŽSR	Difference Total / ŽSR
Train collision	14/2	13/1	+1/+1
Train derailment	2/2	5/4	-3/-2
Collision with level crossings users	50/0	38/0	+12/0
Rolling stock fire accidents	10/0	7/0	+3/0
Injuries by rolling stock	120/0	108/0	+12/0
Shunting accidents	36/13	31/12.3	+5/+0.7
Consequences of accidents			
Level crossing fatalities	5	5	0
Unauthorized persons fatalities	92	80	+12
Staff fatalities	1	2	-1
Passenger fatalities	1	0	+1

Occupational Injuries Report

Subject	2017	2016	Difference
Total occupational injuries	**56**	**43**	**13**
thereof major occupational injuries:			
Fatal injuries	0	0	0
Severe injuries	0	0	0
Number of missed calendar work days:	4,434	3,605	829
Average number of employees:	13,823.731	14,008.612	-184.881
Number of injuries per 1,000 employees:	4.051	3.070	0.981

V. Research and development

Expenditure on research and development assignments

Operational processes / Utilization *(thousand EUR)*	2017	2016
- Research expenditure	55	66
- Development expenditure	20	16
Total	**75**	**82**

Major assignments accomplished in 2017:

- Impact assessment of maximum reserved capacity of traction power supply substations on the permeability of electrified lines;
- Updating the methodology for testing and measuring the interaction between rolling stock and infrastructure;
- Reprofilation of load concrete segments;
- Centralization of security system control of ŽSR facilities and ensuring the standards of railway stations;
- Updating of technological procedures in the field of welding and hardfacing of rails.

Other task addressed the issues related to power engineering, testing, diagnostics and implementation of the legislation of the EU and of the Slovak Republic into day-to-day business of ŽSR.

VI. Investment activities

Investment activities implemented in 2017 amounted to EUR 241,804 thousand. Investments were allocated to upgrading the components of railway infrastructure – railway stations, railway substructure and superstructure, overhead contact lines, signalling systems, retaining walls and construction of railway bridges.

Modernization and development of railway infrastructure and other assets managed by ŽSR was acquired from:

- Internal resources in the amount of EUR 121,154 thousand,
- EU funds in the amount of EUR 81,056 thousand,
- Co-financing from the state budget to EU funds in the amount of EUR 14,304 thousand,
- Capital transfer provided from the budget chapter of the Ministry of Transport and Construction of the Slovak Republic in the amount of EUR 22,261 thousand.

Financial resources were invested according to utilization purpose as follows:

(thousand EUR)	**Implementation 2017**
Rail infrastructure modernization, renewal and construction	191,061
Operational safety	25,495
Automation of Traffic management	71
Improvement of services	22,084
Other (gifts, findings and ZC DHM and DNM)	3,093
Total	**241,804**

Investments from internal resources

Following payment of the claim by the Ministry of Transport and Construction of the Slovak Republic amounting to EUR 73,980 thousand, ŽSR decided to increase the volume of investment expenditure from internal resources. As part of the investment activities, ŽSR focused not only on the modernization of railway infrastructure components, but also on the business development investments, which in the future will be creating additional performances and directly supporting the core business of ŽSR.

- Modernization of the railway line Nové Mesto nad Váhom - Púchov, line section Zlatovce - Trenčianska Teplá in the amount of EUR 25.8 million.
- Intermodal Transport Terminal Lužianky, EUR 15.2 million.
- Computer hardware for ŽSR business use, EUR 11.6 million.
- Stabilization of sloping area in the line section Maťovce – Haniska, EUR 5.2 million.
- Reconstruction of the broad-gauge railway line Haniska – Maťovce, EUR 4.9 million.
- Information technology system for traffic management, EUR 2.7 million.
- Railway station Bratislava Predmestie, station reconstruction, EUR 2.6 million.
- Railway station Lučenec, construction works and passenger facilities, EUR 2.4 million.
- Office building, Železničná 1, Košice, EUR 2.0 million.

Operational Programme Integrated Infrastructure 2014 - 2020

Drawing of EU funds and co-financing from the state budget was largely influenced by the approval process of non-repayable financial contributions. In the course of 2017, six non-repayable financial contribution contracts were signed. The EU funds granted and the co-financing from the state budget amounted to EUR 43,325 thousand. These funds were used to reimburse expenditures for projects that were temporarily paid in 2016 until signing of the non-repayable financial contribution contracts from internal resources amounting to EUR 18.2 million.

Funds from the operational program were drawn to implement the following constructions:

- Modernization of railway line Púchov - Žilina, line section Dolný Hričov - Žilina, the construction was completed on 31 December 2017. Approximately 23 km long section between Považská Teplá and Žilina was financed by ŽSR under two operational programs. It includes six new railway and five road bridges, nine underpasses and nine refurbished railway bridges.
- Completion of Žilina Teplička marshalling yard and the connected railway infrastructure at Žilina node - project documentation.
- Integrated Passenger Transport Terminal Trebišov - project documentation for documentation for territorial decision and documentation for building permit for construction realization.

Given the non-repayable financial contribution contracts for Modernization of railway line Púchov - Žilina, line section Púchov - Považská Teplá was not signed, the project funding was provisionally secured from internal resources amounting to EUR 70.8 million.

Capital transfer

The funds were drawn under the Contract No. 114/AD00/2017 on the provision of funds from the budget chapter of the Ministry of Transport and Construction of the Slovak Republic.

The use of funds on construction sites amounted to EUR 19,896 thousand, thereof from the construction and renewal of the railway network chapter – EUR 7,267 thousand and from the Operational Programme Integrated Infrastructure chapter outside co-financing EUR 12,629 thousand Within construction and renewal of the railway network, funds were used for the following constructions:

- Modernization of railway line Žilina - Košice, line section Liptovský Mikuláš – Poprad Tatry (outside), additional financing – Phase 5.
- Railway station Jablonica, complete reconstruction of railway superstructure, track no. 2, 4, 4a.

Capital transfers - Defense support

Under the interdepartmental subprogram "Defence support" in terms of the Contract No. 176/A410/2017 on the provision of funds from the budget chapter of the Ministry of Transport, Construction of the Slovak Republic the financial limit of EUR 248 thousand was allocated. The funds are earmarked for the construction of loading and unloading area at the railway station Sása Pliešovce.

CEF Programme

In 2017, within the framework of the CEF - Connecting Europe Facility, the European Commission granted ŽSR advance payments of EUR 264.7 thousand. Together with a deposit of 2016, the total amount of provided advance payments represented EUR 23.0 million. Due to the ongoing procurement processes, there was no actual drawing as of 31 December 2017. As of the end of 2017, grant agreements for the following projects have been contracted:

- ŽSR, Modernization of the railway line Devínska Nová Ves – SK/CZ state border.
- ŽSR, Modernization of railway line Žilina - Košice, line section Liptovský Mikuláš - Poprad Tatry (outside) – Phase 1 (Poprad - Lučivná).
- ŽSR, Modernization of the railway line Devínska Nová Ves - SK/CZ state border; line section Malacky (outside) - Kúty, project documentation.
- Modernization of the railway line Váh - Varín - Strečno.
- Implementation of GSM-R on the railway line Varín - Košice - Čierna nad Tisou, state border.

VII. Environmental protection

Overview of ecological accidents

In 2017, ŽSR recorded the following environmental incidents with an adverse impact on the environment:

Žilina – Derailment of motive power unit (ZSSK Slovensko, a. s.) resulted in a leak of approx. 2,600 litres of diesel fuel. In accordance with the instructions of the Slovak Environmental Inspection, the contaminated snow cover with the upper part of the gravel bed was removed and a hydrogeological assessment of the site of contamination by the authorized person was carried out, stating that the control sample of the extracted subsoil was not contaminated and that the content of non-polar extractable substances was maintained at the natural background level.

Lužianky – Mercury was emitted over the area of about 1 square meter on the loading ramp at the track no. 5 in line-km 40.850. Affected area was cleaned up by Fire and Rescue System, and no health risk to the employees of ŽSR was reported.

Plešivec – Rožňava – Moldava nad Bodvou – Košice – Leak of approx. 80 litres of motor oil from motive traction unit (ZSSK Slovensko, a. s.). In railway stations Plešivec, Moldava nad Bodvou and Košice contaminated gravel bed was removed in the total volume of 28.7 tons, afterwards a detergent was applied to the affected site and heavy repair works on the concerned tracks were carried out.

Air pollution

In terms of statutory obligations, air pollution charges to be paid for the operation of medium air pollution sources for the reporting period were calculated by the competent air protection authorities in the amount of EUR 1,606.

Penalties for deficiencies found by state authorities

No penalties were imposed on ŽSR in 2017 in the field of environmental protection.

Measures to reduce the negative impact of ŽSR activities on the environment

- Removing the environmental burden by remediation of subsoil and groundwater in Čierna nad Tisou, and operating the hydraulic protection and groundwater monitoring.
- Continued area-wide system for collection of selected hazardous waste by an authorized entity.

Measures to mitigate noise

- Ensuring the elaboration of a feasibility study on measures to reduce noise arising from the operation of railway station Bratislava East.

VIII. Risks and uncertainties

Risk Management at ŽSR - Support system for successful implementation of the Strategy of ŽSR

In order to efficiently fulfil the defined strategic objectives of ŽSR, strategic risk management system is in place in ŽSR fulfilling the role of the support system for successful implementation of the strategy. Its aim is to effectively manage identified strategic risks, which could negatively affect the realization of strategic objectives of ŽSR.

The strategic risk management system of ŽSR is based on commonly used approaches to risk management and respects the provisions of STN EN 01 0380:2003 - Risk management. Under this system we differentiate traffic, timetable, infrastructure, investment related risks and risks associated with management of the organization.

Traffic and Timetable Risks

Internal risks include, for example, violations of statutory regulations by operating personnel, accidents and extraordinary events, unattended technological working procedures at railway stations and railway line sections. These are the risks of medium to high importance, but they are subject to risk elimination measures - onetime or process measures. Traffic risks still include the risk of noncompliance with railway undertakings requirements when creating/changing a timetable as well as non-attractive products and services under the terms and conditions for the access to railway infrastructure.

Financial Risk

In the financial area, ŽSR is exposed to liquidity, credit and interest rate risk.

The company is dependent on the continuous state aid in the form of subsidies from the state budget. The state participates in the financing of the ordinary and capital expenditures of ŽSR through the budget chapter of the Ministry of Transport and Construction of the Slovak republic. Liquidity in this area is managed in view of the approved budget of ŽSR for the respective budgetary period with emphasis on the observance of the conditions for drawing subsidies and the minimization of possible penalties.

For modernization of transport corridors of pan-European importance, the company has the opportunity to draw resources from a number of European Union financial instruments. Due to the administrative complexity of the processes of contracting financial resources, the risk of time discrepancy between real needs and their provision by the EU can be met. In such situation, the company may be under pressure as regards its internal sources of funding, possibly threatening the liquidity and financial stability of the company.

In other areas primarily funded from sales, the key liquidity management tool is continuous monitoring of current cash flow developments. In case of occurrences of risk events and externalities, the company reviews and models them to manage liquidity in operational manner.

Credit risk arises from the inability of debtors to meet their obligations towards ŽSR. The risk is regulated by monitoring and evaluating the status of claims and by addressing overdue claims without delay, while using all legal options. The procedures for monitoring, assessing and recovering of claims are governed by internal regulation and its observance is regularly monitored. The company is exposed to the significant credit risk of an individual contractor as 36.5 % of claims are towards the two most important customers.

Interest rate risk is associated with long-term credit. Interest rate risk is currently not secured by financial instruments due to low current and also foreseen interest rates.

The company has the opportunity to value available funds through deposit products. This is associated with the risk of undesirable interest rate falls or the application of negative deposit rates.

The management, however, makes efforts to eliminate all the aforementioned risks, constantly monitors the risk management situation, strives to ensure credibility, confidence and long-term financial stability of the business with its predictions and ex-post analyses.

Risks in the field of Human Resources

Every year ŽSR has to replace the expected natural decrease in the number of employees, in particular due to retirement, by skilled professional workforce. Without higher financial incentives for employees, there is also a high assumption of departure of qualified professionals, mainly for higher wages and in particular to the private sector. Simultaneously, we perceive a high level of risk in the Bratislava and Trnava regions with respect to the cost of living and the average wage (+20 % compared to other regions – source: Statistical Office of the Slovak Republic).

Securing the activities of the infrastructure manager in the required scope and quality is not possible without the corresponding regular increase in wage and other personnel costs. Subsidies for the operation of railway infrastructure as of 2014 have annually amounted to EUR 250 million. In view of aforementioned, it is necessary to increase the subsidy for the operation of the railway infrastructure so that ŽSR would be able to reflect on the current requirements of the labour market and to create competitive working environment towards the external labour market.

Anti-Corruption Measures

Železnice Slovenskej republiky has issued internal regulations, which ensure uniform rules and procedures for taking initiatives on serious anti-social activities under Act No. 307/2017 Coll. on certain measures related to reporting of anti-social activities and on amendment and supplements to certain acts. In parallel, timely and effective response in order to preventing possible damage as a result of such action is ensured.

IX. Important events in 2017

Relations with the State

On 12 July 2017, the Contract for railway infrastructure operation 2016 was evaluated with a positive business result from the contract for railway infrastructure operation, amounting to EUR 10,501.

ŽSR concluded with the Ministry of Transport and Construction of the Slovak Republic Amendments no. 1 and no. 2 to the Contract for railway infrastructure operation for 2017 - 2021, Amendment no. 1 on 12 October 2017 and Amendment no. 2 on 20 December 2017.

Strategic agenda

- Updating the ŽSR Strategy as a result of changing internal and external environment.
- Working on the implementation of measures for the revision of expenditure in relation to the Ministry of Transport and Construction of the Slovak Republic.

International meetings

ŽSR holds membership in a number of international organizations and associations: CER, UIC, RNE, OSJD, G4, V4, Rail Freight Corridors (RFC 5 Baltic-Adriatic, RFC 7 Orient-East Mediterranean, RFC 9 Czech-Slovak and Rhine-Danube, RFC 11 Amber). In 2017, various important international conferences, workshops, exhibitions and meetings were held aimed at promotion and development of railway transport, mutual cooperation of railway infrastructure managers, public authorities (ministries, regulatory bodies, European Commission) and at the level of other railway market stakeholders (railway undertakings, combined transport operators, logistics companies, terminals,...). Individual multilateral, but primarily bilateral meetings (permanent working groups and cross-border conferences with neighbouring infrastructure managers) addressed and discussed current topics related to operation, supplied services and strategic planning of the railway infrastructure development.

The most important meetings comprised:

- RNE General Assembly (Budapest, 4 May 2017; Vienna, 6 December 2017 – associated with the EU Rail Freight Days),
- CER General Assembly (Brussels, 8 February 2017; Gdansk, 25 September 2017),
- UIC General Assembly (Paris, 7 December 2017),
- Conference of Directors General of OSJD Railways (Minsk – Belarus, 17 - 21 April 2017),
- Meeting of Directors General of G4-Group Railways (Vienna, 28 - 29 November 2017),
- Cross-border cooperation conferences, discussions and meetings in presence of ŽSR and neighbouring railway administrations – GySEV, MÁV, PKP, ÖBB, SŽDC a UZ.

Personnel and organizational changes

On 1 February 2017, Director General of ŽSR appointed Mr. Pavol Hudák, MSc to the position of Deputy Director-General for Human Resources and on 8 April 2017 Director General of ŽSR appointed Ing. Juraj Tkáč to the position of Deputy Director-General for Economy.

In 2017, several organizational changes were made at different levels:

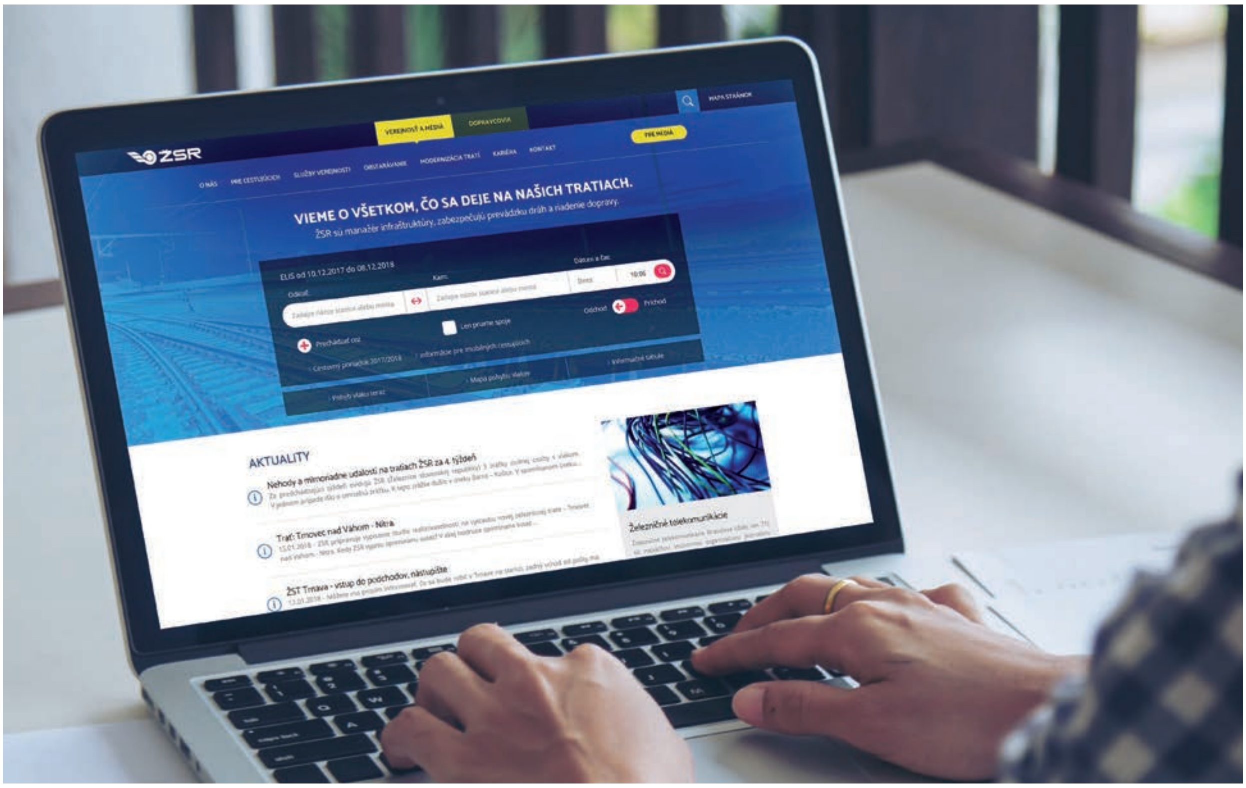
- Cancellation of ŽSR Internal Organizational Unit – Railway Healthcare Services Bratislava as of 1 April 2017 with transfer of activities to the Human Resources Department of ŽSR;
- Optimizing the number of administrative staff in relation to:
  - Centralization of human resources – as of 31 August 2017 cancellation of Human Resources Sections at Regional Directorates with transfer of activities as of 1 September 2017 to newly established Special-purpose centres Regional offices for Human Resources (ÚS RP ĽZ Bratislava, Košice, Trnava, Zvolen, Žilina) under the responsibility area of Human Resources Department of ŽSR Directorate General,

  - Centralization of controlling activities – as of 31 August 2017 cancellation of Economy Sections with transfer of controlling units as of 1 September 2017 to Controlling Department of ŽSR Directorate General and activities of the Department of Operations Economics and Logistics as of 1 October 2017 transferred under the direct managerial responsibility of Director of Regional Directorate,
  - Cancellation of Building Management Sections at Regional Directorates as of 30 September 2017 and its transfer as of 1 October 2017 under the direct managerial responsibility of Deputy Director of Regional Directorate for Traffic Management,
- Establishment of Special-purpose centres Regional offices for Human Resources in Bratislava, Košice, Trnava, Zvolen, Žilina as of 1 September 2017,
- Change of organizational structure of Controlling Department of ŽSR Directorate General as of 1 September 2017 in accordance with conclusions of the Project for centralization of controlling activities in relation with transfer from ŽSR Internal Organizational Unit to Controlling Department of ŽSR Directorate General,
- In terms of Project "New model of economy and organizational arrangement of building economy – of ŽSR" as of 31 December 2017 the following ŽSR Internal Organizational Units were cancelled – Property Management Centre Bratislava, Department of Property Management of ŽSR Directorate General, Department of Railway Buildings at the Department of Railway Tracks and Structures of ŽSR Directorate General and the Department of Railway Buildings at Regional Directorates Žilina, Zvolen, Košice and Trnava.

Collective Agreement

In 2017, Železnice Slovenskej republiky under the ŽSR Collective Agreement for 2017 - 2018 secured a monthly tariff wage increase of EUR 35 in all tariff classes and average annual volume of benefits in the amount of EUR 1,100 per ŽSR employee.

In the course of 2017, collective bargaining on a new remuneration system commenced that takes into account the demanding nature of operational working activities as well as the requirements for professional competence and career growth of employees.



X. Events of important significance beyond 2017

Relations with the State

On 26 January 2018, Železnice Slovenskej republiky concluded with the Slovak Republic, represented by the Ministry of Transport and Construction of the Slovak Republic, Amendment No. 3 to the Contract on railway infrastructure operation for 2017 - 2021. Subject of Amendment no. 3 is the set-up of financial and operational indicators into the present Contract on railway infrastructure operation for 2018.

Collective Agreement

ŽSR by signing Amendment No. 1 to the Collective Agreement for 2017 - 2018 effective from 1 February 2018 has committed to increase the monthly tariff salaries for selected operating position and to observe annual volume of staff benefits of 2017.

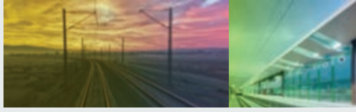
Organizational changes

On 1 January 2018, in connection with the approved conclusions of the project „New model of economy and organizational arrangement of building economy of ŽSR“ a new internal organizational unit was established – ŽSR Asset Management Bratislava.

By transferring of activities of the Museum-Documentation Centre in the responsibility areas of Communications Department of ŽSR Directorate General, on 1 January 2018 a new Purpose-centre of ŽSR was established – Railway Museum of the Slovak Republic.

XI. Settlement of business result 2017

Železnice Slovenskej republiky for the accounting period of 2017 reported the business result – profit of 101,879.23 EUR used to undistributed profit of previous years.



ŽELEZNICE SLOVENSKEJ REPUBLIKY

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

for the year ended 31 December 2017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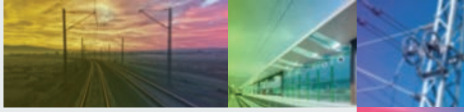


CONTENTS

STATEMENT OF FINANCIAL POSITION

	Note	31 December 2017	31 December 2016
ASSETS			
NON-CURRENT ASSETS			
Property, Plant and Equipment	4	3,331,088	3,263,227
Real Estate Investment	5	29,427	33,975
Intangible Assets	6	16,335	10,321
Financial Investment	7	5,662	4,904
Non-Current receivables	8	345	69,975
Total Non-Current Assets		**3,382,857**	**3,382,402**
CURRENT ASSETS			
Inventories	9	7,911	8,485
Trade receivables	10	12,707	13,692
Other receivables and assets	11	18,339	32,993
Cash and Cash Equivalents	12	64,003	78,809
Total Current assets		**102,960**	**133,979**
TOTAL ASSETS		**3,485,817**	**3,516,381**
EQUITY AND LIABILITIES			
EQUITY			
Registered capital		800,170	760,234
Capital funds		527,638	520,228
Legal reserve fund		21,904	21,904
Earnings from previous periods		330,311	367,940
Profit for accounting period		**102**	**8,173**
Accumulated earnings		330,413	376,113
Total Equity	13	**1,680,125**	**1,678,479**
NON-CURRENT LIABILITIES			
Loans	3, 14	62,740	62,741
State and EU subsidies	15	1,377,947	1,419,777
Provisions and accruals	16,17,18	89,583	99,942
Deferred tax liability	37	48,147	42,066
Other non-current liabilities	19	23,875	16,828
Total Non-Current Liabilities		**1,602,292**	**1,641,354**
CURRENT LIABILITIES			
Short-term loans and curr. portion of long-term loans	3,14	8	4
Short-term state and EU subsidies	15	77,681	79,537
Trade liabilities	20	85,357	77,057
Payables to the public institutions	21	8,619	8,621
Other liabilities	22	25,256	24,145
Provisions and accruals	16,17,18	6,479	7,184
Total Current liabilities		**203,400**	**196,548**
TOTAL EQUITY AND LIABILITIES		**3,485,817**	**3,516,381**

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

STATEMENT OF COMPREHENSIVE INCOME

	Note	31 December 2017	31 December 2016
REVENUES			
Railway infrastructure operation	23	90,802	91,257
Subsidies for railway infrastructure operation	24	274,075	272,481
Electric energy	25	65,331	66,304
Telecommunication services and IT services	26	5,373	5,388
Property revenues	27	11,016	10,317
Other revenues	28	19,486	20,790
Total revenues		**466,083**	**466,537**
OPERATING COSTS			
Materials and consumables	30	-34,889	-27,202
Energy	31	-74,782	-75,992
Services	32	-43,322	-37,305
Payroll costs	33	-233,776	-233,088
Depreciation, amortization and impairment	34	-87,765	-85,725
Other operating costs, net	35	12,847	4,563
Total operating costs		**-461,687**	**-454,749**
PROFIT FROM OPERATIONS		**4,396**	**11,788**
FINANCIAL COSTS / INCOME			
Interest from loans	14	-127	-188
Other financial costs / income	36	688	348
Total financial costs / income		**561**	**160**
PROFIT before tax		**4,957**	**11,948**
Income tax	37	-4,855	-3,775
NET PROFIT after tax		**102**	**8,173**
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Re-measurements of post-employment benefit obligations	18	520	-5,365
Deferred tax related to re-measurements	37	-109	1,126
Items that may be reclassified to profit or loss:			
Revaluation of financial investment	7	9	0
Deferred tax related to revaluation of financial investment	37	-2	0
COMPREHENSIVE PROFIT FOR PERIOD		**520**	**3,934**

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 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**
As at 1 January 2017	**760,234**	**520,228**	**21,904**	**376,113**	**1,678,479**
Profit for the period	0	0	0	102	102
Registered capital	39,936	0	0	-39,936	0
Non-cash increase in capital	0	2,754	0	0	2,754
Allocation to Social fund	0	0	0	-500	-500
Other comprehensive income	0	4,656	0	-5,366	-710
As at 31 December 2017	**800,170**	**527,638**	**21,904**	**330,413**	**1,680,125**

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

STATEMENT OF CASH FLOWS

		31 December 2017	31 December 2016
Profit before tax		**4,957**	**11,948**
Adjustments by non-cash transactions		**79,524**	**104,049**
Depreciation, amortization and impairment		177,191	178,250
Dividends and other profit sharing recorded against revenues		-37	-245
Interest recorded against expenses		270	235
Interest recorded against revenues		-52	-164
- Gain / + Loss from the sale of property, plant and equipment		-1,571	-983
+ Increase / - Decrease in provisions		-11,050	7,533
Amortization of state subsidies		-89,426	-92,525
Other non-monetary items		-758	0
Effect on changes in working capital		**97,517**	**39,470**
- Increase / + Decrease in receivables and other assets		85,271	16,409
+ Increase / - Decrease in liabilities		11,672	23,854
- Increase / + Decrease in inventories		574	-793
Cash flow from operating activities		**177,041**	**143,519**
Expenditure on income tax		-12	-22
Interest received		50	99
Interest paid		-131	-190
Net cash flows from operating activities		**176,948**	**143,406**
Acquisition of property, plant and equipment and non-current intangible assets		-240,120	-144,518
Subsidies for acquisition of non-current assets		45,740	42,132
Revenue from the sale of property, plant and equipment and non-current intangible assets		2 583	2 187
Net cash flows from investment activities		**-191,797**	**-100,199**
Cash receipts from dividends and other profit sharing		37	245
Cash receipts from loans borrowing		4	1
Repayment of liabilities related to financial leasing		-1	-1
Net cash flows from financial activities		**40**	**245**
Net increase / decrease in cash and cash equivalents		**-14,809**	**43,452**
Cash and cash equivalents at the beginning of the year	12	**78,807**	**35,355**
Exchange differences on cash and cash equivalents		-1	0
Cash and cash equivalents at the end of the year	12	**63,997**	**78,807**

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 is in accordance with Act No. 540/2001 Coll. §20, section 1 and §21 section 1, registered as a public administration body (Note 2).

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 2016 were approved by Administrative Board of ŽSR on 27 April 2017 in Bratislava.

For the year ended 31 December 2017 the Company reported a net profit of EUR 102 thousand (for the year ended 31 December 2016: profit of EUR 8,173 thousand).

2 BASIS OF PREPARATION

The Company prepares separate financial statements in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS") 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 names 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 2017 are presented in thousands of euro (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.

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.

The useful life of non-current assets

The Company estimates the useful life of on-current assets for the expected period of time that the asset will be available for use in the Company, taking into account the expected technical and moral depreciation. 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.

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.

Limit (minimum value) for the reporting of tangible assets in on-current assets (except building, structures, lands and works of art) is set at higher than EUR 1,700 if the operational and technical function of property is longer than one year; limit (minimal value) for the reporting of intangible assets in non-current assets is set at higher than EUR 2,400 if operational and technical function of property is longer than one year. Technical appreciation of assets (modernizations, reconstructions, additional buildings, superstructures, rebuildings or building modifications) is capitalized in non-current assets to the asset if the minimum value of technical appreciation per year is more than EUR 1,700.

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. The value is significant if the difference between the nominal value of non-current liability and present value of non-current liability is more than EUR 5 million. 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.

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

Assets for sale

Change in the classification of non-current assets to assets for sale occurs if the sale has been approved by Government resolution of Slovak Republic and decision to sell has been issued by Ministry of Transport by the end of 31 December, but the asset has not been removed from the current year's accounting records. On the date of the resolution, these assets cease to be depreciated and are recognized at a lower of book value and fair value less costs to sell.

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. Financial investments held for sale are revaluated to fair value in equity and the revaluation is recognized in other comprehensive income. When financial investment is sold, revaluation will be reclassified to profit or loss.

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 2017 is set to 2 % (as at 31 December 2016: 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.

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 EUR 5,000 thousand recorded in current period. If balance of costs and income adjustments, recorded in current period, exceed the determined value of EUR 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 profit or loss defined in accordance with valid Slovak regulations, adjusted for taxable expenses and non-taxable income. The rate of tax due is 21 %, the interest rate on the withholding tax is 19 %.

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 2017 in preparing the financial statements:

- IFRS 9 - 'Financial Instruments' replaces the guidance in IAS 19 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;
- amendment to IAS 40 - 'Investment Property', effective from 1 January 2018;
- IFRIC 22 - 'Foreign Currency Transactions and Advance Consideration', 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 recognized 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.

Amendment to IAS 40 - 'Investment Property'

The amendments clarify that transfers to, or from, investment property can only be made if there has been a change in use that is supported by evidence. A change in use occurs when the property meets, or ceases to meet, the definition of investment property. A change in intention alone is not sufficient to support a transfer.

IFRIC 22 - 'Foreign Currency Transactions and Advance Consideration'

The interpretation clarifies how to determine the date of transaction for the exchange rate to be used on initial recognition of a related asset, expense or income where an entity pays or receives consideration in advance for foreign currency-denominated contracts.

For a single payment or receipt, the date of the transaction should be the date on which the entity initially recognizes the non-monetary asset or liability arising from the advance consideration (the prepayment or deferred income/contract liability). If there are multiple payments or receipts for one item, a date of transaction should be determined as above for each payment or receipt.

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 various financial risks during performance of its activities, of which it identifies the most significant risks:

- credit risk,
- liquidity risk,
- interest rate risk.

Credit risk

The Company perceives the credit risk mainly in connection with trade receivables arising from business relationship with customers. 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 with respect to its position as manager of infrastructure is exposed to significant credit risk of an individual contractual party, as 36.51 % of receivables as at 31 December 2017 (as at 31 December 2016: 21.66 %) 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.

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

	31 December 2017	31 December 2016
Receivables within maturity	**57,418**	**154,799**
Up to 1 month	11,128	15,478
From 1 to 3 months	7,727	5,135
From 3 to 12 months	19,739	35,764
From 1 to 5 years	18,566	98,290
Over 5 years	258	132
Receivables overdue	**5,322**	**5,237**
Total receivables	**62,740**	**160,036**

The Company does not define the credit risk associated with liquid assets deposited with financial institutions because contracting parties are reputable banks with high credit rating assigned to them or to their mother companies by international rating agencies.

Liquidity risk

The Company prudently manages liquidity to ensure that the funds will be always available at maturity of liabilities, in both normal and abnormal conditions. To manage liquidity risk, the Company plans in detail cash flows that are revised at occurrence of risk events and externalities and managed 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 2017	*31 December 2016*	*31 December 2017*	*31 December 2016*
Payables within maturity	**62,748**	**62,745**	**269,099**	**257,758**
On demand	0	0	0	0
Up to 1 month	6	2	41,895	40,587
From 1 to 3 months	0	0	19,606	20,781
From 3 to 12 months	2	2	62,006	53,442
From 1 to 5 years	62,740	62,741	56,033	58,370
Over 5 years	0	0	89,559	84,578
Payables overdue	**0**	**0**	**295**	**265**
Total payables	**62,748**	**62,745**	**269,394**	**258,023**

Interest rate risk

The Company has no significant interest bearing assets except for cash and cash equivalents. Company's current 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 EUR '000
6ME + 1 % / 6ME rate = 0 % p. a.	-627 / no impact

As at 31 December 2017 there have been no changes in methods and assumptions from the previous period. The Company does not consider the risk of interest rate changes to be significant in view of the current financial market situation and related forecasts, but the situation is constantly monitored.

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 with the aim to maximize the credibility of the company.

The Company monitors indebtedness using gearing ratio with following values at year-end:

	31 December 2017	31 December 2016
Debt (Note 14)	62,748	62,745
Cash and cash equivalents (Note 12)	64,003	78,809
Net debt	0	0
Equity	1,680,125	1,678,479
Ratio Net debt to Equity	**0%**	**0%**

4 PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings	Machinery, Equipment and other assets	Assets acquisition	Total
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**
Cost				
As at 1 January 2017	4,590,173	1,020,063	549,205	6,159,441
Additions	73,791	8,143	252,441	334,375
Disposals	-37,283	-28,647	-62,309	-128,239
Transfers	138,525	21,679	-160,204	0
Transfer to investments in real estate (Note 5)	-2,233	0	0	-2,233
Transfer from investments in real estate (Note 5)	4,119	0	0	4,119
As at 31 December 2017	**4,767,092**	**1,021,238**	**579,133**	**6,367,463**
Accumulated depreciation / Impairment				
As at 1 January 2017	2,114,478	759,502	22,234	2,896,214
Additions	116,797	66,596	2,853	186,246
Disposals	-16,963	-28,052	-7,001	-52,016
Transfers	4,028	1,903	0	5,931
As at 31 December 2017	**2,218,340**	**799,949**	**18,086**	**3,036,375**
Net book value				
As at 1 January 2017	2,475,695	260,561	526,971	3,263,227
As at 31 December 2017	**2,548,752**	**221,289**	**561,047**	**3,331,088**

Part of non-current assets as at 31 December 2017 is railway infrastructure assets in use in original cost in the amount of EUR 5,413,086 thousand (as at 31 December 2016: EUR 5,233,642 thousand) and in carrying value in the amount of EUR 2,669,172 thousand (as at 31 December 2016: EUR 2,630,295 thousand).

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 EUR 36,190 thousand (as at 31 December 2016: EUR 39,207 thousand) and which is not reflected in the Company's statement of financial position. The Company is actively engaged in resolving these claims. During 2017 title to land with an administrative value of EUR 2,216 thousand was transferred to the Company and capitalized in its statement of financial position (as at 31 December 2016: EUR 2,223 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 EUR 525 thousand (as at 31 December 2016: EUR 24,497 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 EUR 34,888 thousand (as at 31 December 2016: EUR 31,878 thousand) reported on acquisition account and the Company is heavily involved with their transfer into use. During the year 2017, land were transferred into use in the amount of EUR 8,971 thousand (in 2016: EUR 4,562 thousand).

The Company reports on acquisition account constructions that are in use. 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 EUR 1,309 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 EUR 4.5 thousand (as at 31 December 2016: EUR 5 thousand).

Acquisition cost of all fully written off property, plant and equipment that are utilized by the Company as at 31 December 2017 is in the amount of EUR 1,526,877 thousand (as at 31 December 2016: EUR 1,473,215 thousand).

Temporary unused assets in original cost are in the amount of EUR 50,171 thousand (as at 31 December 2016: EUR 28,726 thousand) and in carrying value in the amount of EUR 35,601 thousand (as at 31 December 2016: EUR 17,464 thousand).

Low-value tangible assets not included in the Statement of financial position as at 31 December 2017 is in the amount of EUR 33,263 thousand (as at 31 December 2016: EUR 32,807 thousand). These are asset items with a value of up to EUR 1,700 that are registered in the operational records of tangible assets in historical acquisition costs and are charged to costs at the time of acquisition.

The Company considered reality of valuation of assets and liabilities as at 31 December 2017. 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 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**
As at 1 January 2017	**4,292**	**43**	**22,234**	**26,569**
Creation	609	0	2,853	3,462
Reversal	0	0	-1,419	-1,419
Reversal of impairment loss	-533	-27	-5,582	-6,142
As at 31 December 2017	**4,368**	**16**	**18,086**	**22,470**

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 EUR 40,000 thousand for natural hazards with the exception of floods). ŽSR have also liability insurance (annual benefit limit is EUR 2,000 thousand).

5 REAL ESTATE INVESTMENTS

	Year 2017	Year 2016
Cost		
As at 1 January	52,344	53,544
Additions	0	0
Disposals	-154	-307
Transfer from Property, Plant and Equipment (Note 4)	2,233	3,597
Transfer to Property, Plant and Equipment (Note 4)	-4,119	-4,490
As at 31 December	**50,304**	**52,344**
Accumulated depreciation / Impairment		
As at 1 January	18,369	19,010
Additions	3,093	971
Disposals	-36	-117
Transfers	-549	-1,495
As at 31 December	**20,877**	**18,369**
Net book value		
As at 1 January	33,975	34,534
As at 31 December	**29,427**	**33,975**

The Company considered reality of valuation of assets and liabilities as at 31 December 2017. According to IAS 36 – Impairment of Assets, as at 31 December 2017 the Company recorded allowance in the amount of EUR 2,180 thousand.

	Year 2017	Year 2016
Allowances for IAS 40		
As at 1 January	0	0
Creation	2,180	0
Reversal	0	0
Reversal of impairment loss	0	0
As at 31 December	**2,180**	**0**

The following table presents assets disclosed at fair value.

Assets	Level 1	Level 2	Level 3
Hospital	0	26,970	0
Land	0	3,618	22,400
Building	0	1,502	10,028

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.

There were available expert valuations of property to determine fair value of hospitals, lands and buildings and therefore their fair values are reported at level 2 as at 31 December 2017.

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.

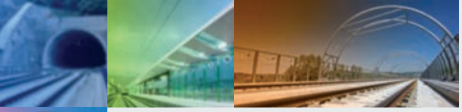
Level 3 – inputs for the asset or liability that are not based on observable market data.

Valuation techniques used to derive fair values at the level 2 and level 3

The fair value of real estate investment at level 2 and level 3 at 31 December 2017 is in the amount of EUR 64,518 thousand (as at 31 December 2016: EUR 82,102 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. In case of lands this method was used to determine fair value for a total 736 property items, simplified method of positional differentiation was used for a total 1,362 items, income method was used for a total 554 items, acquisition cost method was used for a total 445 items and comparison method was used for a total 3 items.

The fair value of buildings was determined by time value method for a total 429 items, simplified income method for a total 97 items, objectification method expertly determined general value for a total 88 items, acquisition cost method for a total 55 items and qualified estimate for a total 57 items.

Costs related with real estate investments represent the amount of EUR 749 thousand (as at 31 December 2016: EUR 938 thousand) and revenues related with real estate investments represent the amount of EUR 3,026 thousand (as at 31 December 2016: EUR 2,371 thousand).



6 INTANGIBLE ASSETS

	Capitalized Development Cost	Software	Acquisition of Assets	Total
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**
Cost				
As at 1 January 2017	52	25,131	2,783	27,966
Additions	0	4,109	9,217	13,326
Disposals	0	-3,285	-3,631	-6,916
Transfers	0	2,337	-2,337	0
As at 31 December 2017	**52**	**28,292**	**6,032**	**34,376**
Accumulated depreciation / Impairment				
As at 1 January 2017	51	17,565	29	17,645
Additions	0	3,681	0	3,681
Disposals	0	-3,285	0	-3,285
Transfers	0	0	0	0
As at 31 December 2017	**51**	**17,961**	**29**	**18,041**
Net book value				
As at 1 January 2017	1	7,566	2,754	10,321
As at 31 December 2017	**1**	**10,331**	**6,003**	**16,335**

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 2017. According to IAS 36 – Impairment of Assets, as at 31 December 2017 the Company recorded allowance for assets under construction in the amount of EUR 29 thousand (as at 31 December 2016: EUR 29 thousand).

7 FINANCIAL INVESTMENTS

	Subsidiaries	Associated companies	Other investments	Total 2017	Total 2016
Opening balance as at 1 January	1,009	3,740	155	4,904	4,904
Additions	0	749	9	758	0
Disposals	0	0	0	0	0
Closing balance as at 31 December	**1,009**	**4,489**	**164**	**5,662**	**4,904**

Additions in 2017 in the amount of EUR 758 thousand are due to the change in the nominal value of shares of ŽPSV, a. s., in the amount of EUR 749 thousand. Shares of Betamat, a. s., Zvolen has been classified for sale as at 31 December 2017 and were revaluated to fair value.

Structure of capital participation as at 31 December 2017 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)	5,826	212	Slovakia	55.26	Management of supplementary pension funds
Associated companies					
ŽPSV, a. s., Čaňa (Note 40)	7 031	87	Slovakia	41.06	výroba betónových výrobkov, prefabrikátov a konštrukcií pre stavebné účely
Breitspur Planungs GmbH, Wien	3,799	-639	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)	240	14	Slovakia	10.00	Installation, maintenance and repair of telecomm. equipment
HIT RAIL, b. v., Amsterdam, Netherland	3,151	128	Netherland	4.00	Implementation of the interconnection of information systems within the UIC

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 2017	31 December 2016
Non-current trade receivables	11,024	16,579
Advances given	7,516	7,511
Receivables from sale of flats	265	177
Other non-current receivables	29	32
State receivable	0	73,980
Allowances for receivables	-18,489	-28,304
Total non-current receivables	**345**	**69,975**

Receivable from Železničná spoločnosť Cargo Slovakia, a. s., is recorded in non-current trade receivables in the amount of EUR 10,998 thousand under Appendix No. 6 to Settlement Agreement of Payables. State receivable from Ministry of Transport and Construction of Slovak republic in the amount of EUR 73,980 thousand, which represented a claim of ŽSR for payment of compensation for financial impact for cargo carriers for the year 2010, was settled in 2017.

Progress in allowances for non-current receivables:

Balance as at 31 December 2016	**28,304**
Creation	0
Reversal	-4,267
Reclassify non-current allowances to current allowances	-5,548
Balance as at 31 December 2017	**18,489**

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 EUR 5,548 thousand. Due to the settlement of State receivable in the amount of EUR 73,980 thousand, allowance in the amount of discount was cancelled in the amount of EUR 4,267 thousand. Non-current receivables are through the allowances measured at amortised cost using the effective interest rate method.

9 INVENTORIES

	Cost 2017	Book value 2017	Cost 2016	Book value 2016
Products of engineering and metal industry	3,895	1,621	4,629	2,279
Products of electro-technical industry	3,723	2,206	3,320	2,003
Products of steel industry	1,625	1,393	1,442	1,228
Products of chemical industry	1,197	971	1,040	812
Personal protective equipment and uniforms	397	374	604	509
Building materials and products of wood industry	1,072	945	1,420	1,287
Other materials	673	401	614	367
Total inventories	**12,582**	**7,911**	**13,069**	**8,485**

The Company recorded allowances for slow moving and obsolete inventories following comparison of valuation with net realizable value as at 31 December 2017.

Progress in allowances for inventories:

Balance as at 31 December 2016	**4,584**
Creation	3,160
Disposal of inventories	-133
Dissolution of relevance	-2,940
Balance as at 31 December 2017	**4,671**

10 CURRENT TRADE RECEIVABLES

	31 December 2017	31 December 2016
Trade receivables	23,581	26,793
of which receivables from ZSSK CARGO for the year 2010	8,048	10,000
Advances given	75	103
Other trade receivables	1,747	1,621
Allowances for receivables	-12,696	-14,825
Total current receivables	**12,707**	**13,692**

Overdue receivables are in the amount of EUR 5,322 thousand (as at 31 December 2016: EUR 5,237 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 2016	**14,825**	**1,251**
Creation	301	92
Reclassify from long-term to short-term	5,548	0
Reversal because of receivable write-off	-282	-22
Reversal because of full or partial collection	-7,696	-5
Balance as at 31 December 2017	**12,696**	**1,316**

11 OTHER RECEIVABLES AND ASSETS

	31 December 2017	31 December 2016
Other receivables	736	630
State receivables	15,561	30,944
Allowances for receivables	-163	-247
Prepaid expenses	2,205	1,666
Total other receivables	**18,339**	**32,993**

In state receivables the Company recorded claims for capital subsidies to capital liabilities from constructions where there is certainty that the subsidies will be drawn in future periods.

In states receivables the Company recorded receivable from excess VAT in the amount of EUR 4,820 thousand (as at December 2016: EUR 1,488 thousand).

Progress in allowances for other receivables:

Balance as at 31 December 2016	247
Creation	8
Reversal because of receivables write-off	-84
Reversal because of full or partial collection	-8
Balance as at 31 December 2017	**163**

12 CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Cash on hand	554	543
Cash in bank	63,449	78,266
Short-term deposit	**64,003**	**78,809**
Total cash and cash equivalents in statement of financial position	-6	-2
Credit cards	**63,997**	**78,807**

Cash and cash equivalents include advances purposefully bound for financing of Connecting Europe Facility („CEF“) projects in the amount of EUR 23,348 thousand (as at 31 December 2016: EUR 22,847 thousand). The advance payments are used to continuous finance the work carried out on individual projects approved under second CEF Call and third CEF Call.

Interest rates on current accounts in banks ranged from 0.00 % p.a. to 0.15 % p.a. at the end of the reporting period. Due to the application of the precautionary principle, the Company does not use risky products and thus does not have the opportunity to otherwise temporarily advantageously utilize the 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 EUR 800,170 thousand (as at 31 December 2016: EUR 760,234 thousand). In 2017 the registered capital was aligned with the registered capital registered in the Commercial Register of the Slovak Republic. Unregistered changes in capital were in accounting balanced from accumulated earnings in the amount of EUR 39,936 thousand.

Based on the Administrative Board Decision dated 27 April 2017, profit from previous accounting period in the amount of EUR 8,173 tis. EUR thousand was used to retained earnings from previous years in the amount of EUR 7,673 thousand and to allocation to social fund in the amount of EUR 500 thousand.

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 2017, ownership of lands was transferred and administrative value of lands were corrected in the amount of EUR 2,754 thousand (as at 31 December 2016: EUR 26,720 thousand). Capital funds also includes re-measurements of post-employment benefits in accordance with IAS 19 based on projected actuarial valuation method, revaluation of financial investments in accordance with IAS 39 and deferred tax related to re-measurements of post-employment benefits and revaluation of financial investments.

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 2017 is in the amount of EUR 190,015 thousand (as at 31 December 2016: EUR 176,452 thousand). Reserve fund is in the amount of EUR 21,904 thousand (as at 31 December 2016: EUR 21,904 thousand) which represent more than 5 % of the value of assets less the value of railway infrastructure.

14 LOANS

	31 December 2017	31 December 2016
Short-term loans and current portion of long-term loans		
Interest on loans	1	1
Credit cards	6	2
Short-term finance lease	1	1
Total Short-term loans and current portion of long-term loans	**8**	**4**
Loans		
Euro		
6ME + margin, maturity 3 October 2019	62,740	62,740
Long-term finance lease	**0**	**1**
Total Long-term loans	**62,740**	**62,741**
Total loans	**62,748**	**62,745**

The Company reports bank loan as at 31 December 2017 in the amount of EUR 62,740 thousand (as at 31 December 2016: EUR 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.

The interest costs are in the amount of EUR 127 thousand for the year 2017 (for the year 2016: EUR 188 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 2017	31 December 2016	31 December 2017	31 December 2016
Up to 1 year	1	0	1	1
From 1 to 5 years	0	2	0	1
5 years and more	0	0	0	0
Present value of minimum lease payments	**1**	**2**	**1**	**2**
Disclosed in the Statement of financial position:				
Short-term finance lease	0	0	1	1
Long-term finance lease	0	0	0	1

Fair value of finance lease liabilities equals their book value.

15 STATE AND EU SUBSIDIES

In 2017 the Company drew capital subsidies from the state budged under contract of category of budget of Ministry of Transport in the amount of EUR 19,896 thousand (in 2016: EUR 38,320 thousand). From the above transfer, investment projects "Construction and renovation of railway network" and "Co-financing of eligible costs and ineligible costs of Operational Programme Integrated Infrastructure projects" were provided.

In 2017, within the project Operational Programme Integrated Infrastructure 2014 – 2020 ("OPII"), the Company drew capital subsidies from priority axis No. 1 for modernization of railway infrastructure in the amount of EUR 43,173 thousand (in 2016 within Operational Programme Transport: EUR 8,652 thousand), from priority axis No. 3 for intermodal transport infrastructure in the amount of EUR 152 thousand (in 2016 within Operational Programme Transport: EUR 1,772 thousand).

As at 31 December 2017, the Company had contracted contracts for non-repayable financial contribution for the following projects:

Priority axis No. 1

- Modernisation of the railway track "Púchov – Žilina", for speeds up to 160 km/h, phase II. - track section "Považská Teplá (except) - Žilina (except)", stage 2 (Dolný Hričov - Žilina), realisation
- Finishing of Marshalling yard "Žilina - Teplička" and the follow-up railway infrastructure in station Žilina – project documentation

Priority axis No. 3

- Terminal of integrated passenger transport Trebišov, project documentation
- Transport hub Bratislava - feasibility study
- Train stop Pezinok – parking place for individual car transport, project documentation
- Train stop Ivanka pri Dunaji – parking place for individual car transport, project documentation

Investment construction is in progress on Project Modernization railway track Púchov – Žilina, for speeds up to 160 km/h, phase I. – (track section Púchov - Považská Teplá). The project was approved on 24 August 2015 by the OPII Steering Committee and will be funded from this source. As at 31 December 2017, the Company paid to the contractor of construction the amount of EUR 70,841 thousand temporary from own resources. After signing the Contract for non-repayable financial contribution will be these resources refunded. The Company has not record claim for subsidy in this case. Similarly, the Company proceeds with the Project Electrification of railway track Bánovce nad Ondavou - Humenné – project documentation, where the Company paid the amount of EUR 403 thousand temporary from own resources.

The Company uses funds from Connecting Europe Facility resources to finance strategic projects of Pan European importance. Projects are aimed to improve transport, energy and telecom network of EU in years 2014 – 2020. Advance payments were provided to the Company to ongoing financing of projects. In 2017, funds has not been drawn due to ongoing procurement.

As at 31 December 2017, agreements on provision of the grant are contracted for the following projects:

- Modernisation of railway track “Devínska Nová Ves – state border Slovak republic / Czech republic”
- Modernisation of railway track Žilina – Košice, track section “Liptovský Mikuláš – Poprad Tatry (except) – phase 1 (Poprad – Lučivná)”
- Modernisation of railway track “Devínska Nová Ves – state border Slovak republic / Czech republic”, track section Malacky (except) – Kúty, project documentation
- Modernisation of railway track “Váh – Varín – Strečno”
- Implementation of GSM-R on railway track “Varín – Košice – Čierna nad Tisou, state border”

The structure of state subsidies and EU subsidies

	31 December 2017	31 December 2016
Investment subsidies from EU – State Budget funds	166,776	168,662
Investment subsidies from EU – EU funds	693,755	705,134
Investment subsidies – ISPA program - State Budget funds	103,305	109,670
Investment subsidies – ISPA program - EU funds	47,985	54,763
Investment subsidies – capital transfer	378,332	377,139
Investment subsidies – buildings	51,647	51,282
Technical assistance CEF	62	184
Subsidy – share repurchase	3,025	3,025
Investment subsidy – claim	10,741	29,455
Total state and EU subsidies	**1,455,628**	**1,499,314**
of which short-term portion	**77,681**	**79,537**

16 ACCRUALS

	31 December 2017	31 December 2016
Received free of charge depreciable non-current asset	14,553	14,321
Other accrued income	793	740
Prepaid expenses	10	12
Total accruals	**15,356**	**15,073**

17 PROVISIONS

	31 December 2017	31 December 2016
Environmental burden – long-term portion	32,286	41,537
– short-term portion	206	1,074
Legal claims	2,447	2,752
Provisions for demolition of buildings	1,490	1,948
Total provisions	**36,429**	**47,311**

Progress in provisions:

	Environmental burden provision	Provision for legal claims	Provisions for demolition of buildings	Total provisions
Balance as at 31 December 2016	**42,611**	**2,752**	**1,948**	**47,311**
Creation	65	552	794	1,411
Interest expense	143	0	0	143
Cancellation as not justified	-7,834	-197	-137	-8,168
Reversal due to provision drawing	-2,493	-660	-1,115	-4,268
Balance as at 31 December 2017	**32,492**	**2,447**	**1,490**	**36,429**

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 – 10 years. In 2017, there has been continuation of the elimination of old environmental burdens in Čierna nad Tisou from the Company's resources. In compliance with environmental policy, the Company reviewed recorded provision. In this context, it was found that recorded provisions in some localities are no longer justified. It is mainly about locality Čierna nad Tisou where during the year 2017, removal of environmental burden of about 23 thousand tons was realized and herewith the locality is cleared. In addition, recorded provisions in localities Trnava and Vrútky Explózia were cancelled. Cancellation of provisions is in the amount of EUR 7,834 thousand. Long-term portion of provision is calculated by a fixed interest rate of 2.0 % as at 31 December 2017 (as at 31 December 2016: 2.0 %).

Interests from discounting as a result of the passage of time are in the amount of EUR 143 thousand (as at 31 December 2016: EUR 47 thousand), interest income is in the amount of EUR 0 (as at 31 December 2016: EUR 56 thousand) (Note 36).

Provision for legal claims

Reported amounts represent provision for certain legal claims raised against the Company. 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 EUR 2,447 thousand (as at 31 December 2016: EUR 2,752 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 2017 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 2017 is in the amount of EUR 1,490 thousand (as at 31 December 2016: EUR 1,948 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 2017	31 December 2016
Employee benefit - long -term portion	41,412	42,512
- short-term portion	2,865	2,230
Total employee benefit	**44,277**	**44,742**

Progress in employee benefit:

	Year 2017	Year 2016
Balance as at 1 January	**44,742**	**35,681**
Creation	2,865	2,230
Reversal due to provision drawing	-1,783	-2,118
Dissolution due to unrealized provision	-1,027	3,584
Re-measurement of post-employment benefit	-520	5,365
Balance as at 31 December	**44,277**	**44,742**

Employee benefit provision

As at 31 December 2017 the Company recorded a provision in the amount of EUR 44,277 thousand (as at 31 December 2016: EUR 44,742 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 based on which pays out a one-off retirement bonus amounting to EUR 100 for each year worked. A jubilee bonus upon reaching age of 50 and 60 years is paid out depending on the number of years worked ranging from EUR 100 (up to 10 years) to EUR 700 (over 35 years).

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	1,81 % p. a.
Future salary increases	in 2018 by 5.00 % p. a., in 2019 and in subsequent years by 5.00 % 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 9.17 %;
- 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 0.76 %;
- 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 1.10 %.

The structure of employee benefit costs

	Employment benefits	Post-employment benefits	Total
Balance as at 31 December 2016	**7,050**	**37,692**	**44,742**
Current and past service cost	**323**	**1,514**	**1,837**
current service cost	313	1,696	2,009
past service cost	10	-182	-172
Interest expense	**113**	**603**	**716**
Re-measurements (gains and losses of actuarial)	**-87**	**-520**	**-607**
- changes in demographic assumptions	0	0	0
- changes in financial assumptions	-102	-775	-877
- resulting from practice	15	255	270
Payments program (benefits paid)	**-654**	**-1,757**	**-2,411**
Balance as at 31 December 2017	**6,745**	**37,532**	**44,277**

The average maturity of employment benefits is 7.28 years, future benefits is 11.44 years and the average maturity of post-employment benefits is 10.03 years, future benefits is 15.44 years.

Re-measurements of post-employment benefit (gains) in the amount of EUR 520 thousand are disclosed in equity and other comprehensive income (as at 31 December 2016: losses of EUR 5,365 thousand).

19 OTHER NON-CURRENT LIABILITIES

	31 December 2017	31 December 2016
Social fund liabilities	826	561
Other non-current liabilities	7,847	129
Accruals	2,576	2,759
Investment subsidy CEF	12,626	13,379
Total other non-current liabilities	**23,875**	**16,828**

Other non-current liabilities increased due to accounting for long-term amount withheld of investments.

Structure of social fund:

	2017	2016
Balance of fund as at 1 January	**561**	**744**
Creation	1,977	1,448
of which creation from retained earnings	500	0
Spending	1,712	1,631
Balance as at 31 December	**826**	**561**

20 CURRENT TRADE PAYABLES

	31 December 2017	31 December 2016
Trade payables	81,521	74,979
Advances received	2,812	1,529
Other payables	1,024	549
Total current payables	**85,357**	**77,057**

Of the total amount of trade payables, the Company recorded investment payables in the amount of EUR 57,300 thousand (as at 31 December 2016: EUR 53,634 thousand) and operating payables in the amount of EUR 28,057 thousand (as at 31 December 2016: EUR 23,423 thousand).

21 PAYABLES TO PUBLIC INSTITUTIONS

	31 December 2017	31 December 2016
Payables to insurance companies	7,179	7,150
Payables to tax authorities	1,440	1,471
Total payables to public institutions	**8,619**	**8,621**

22 OTHER PAYABLES

	31 December 2017	31 December 2016
Employees	14,377	14,188
Investment subsidy CEF	10,399	9,468
Other payables	480	489
Total other payables	**25,256**	**24,145**

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 2017	31 December 2016
Fees for access to railway infrastructure – cargo transport	28,168	28,469
– passenger transport	52,791	52,495
Total fees for access to railway infrastructure	**80,959**	**80,964**

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 2017	31 December 2016
Sales of additional services of railway infrastr. – cargo	5,280	5,918
– passenger	4,563	4,375
Total sales of additional services of railway infrastructure	**9,843**	**10,293**

As at 31 December 2017, the total number of railway carriers is 42, herein the number of Slovak carriers is 26 and the number of foreign carriers is 16; the number of carriers for passenger transport is 6 and the number of carriers for freight transport is 36.

24 SUBSIDY FOR RAILWAY INFRASTRUCTURE OPERATION

In accordance with the Operation of the Railway Infrastructure Contract for the year 2017 - 2021 concluded between Ministry of Transport and ŽSR, the Company received operational subsidy to cover fixed portion of economic allowed costs in the amount of EUR 250,000 thousand in 2017 and will be evaluated within the half of 2018. Operation of the Railway Infrastructure Contract for the year 2016 was evaluated on 12 July 2017, resulted to return of funds in the amount of EUR 11 thousand to the account of Ministry of Transport.
Under the 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 2017	31 December 2016
Subsidies for railway infrastructure operation	250,000	250,000
Evaluation of Operation of the Railway Infrastructure Contract	-11	-19
Compensation from the reduction of fees for access	24,086	22,500
Total subsidies and compensation for railway infrastructure operation	**274,075**	**272,481**

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 2017	31 December 2016
Sales of track energy	21,554	24,122
Sales of distribution of track energy	38,482	36,912
Sales of non-track energy	1,490	1,557
Sales of distribution of non-track energy	2,243	2,171
Sales of energy – national nuclear fund	1,562	1,542
Total sales of track energy	**65,331**	**66,304**

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 2017	31 December 2016
Sales of IT services	2,764	2,798
Sales of telecommunication services – data	1,779	1,725
Sales of telecommunication services – voice	406	404
Sales of telecommunication services – others	424	461
Total sales of telecommunication services and informatics	**5,373**	**5,388**

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 2017	31 December 2016
Revenues from rental of non-residential premises	5,407	5,415
Revenues from rental – land	2,828	2,580
Revenues from rental – residential premises	644	660
Revenues from rental – movable assets	310	330
Profit from disposal of non-current assets	1,571	983
Profit from sale of material	256	349
Total revenues from rental	**11,016**	**10,317**

28 OTHER REVENUES

	31 December 2017	31 December 2016
Sales of trailers turned out and other technical services	2,073	1,929
Sales for heat and steam	1,556	1,573
Sales for training, education	1,325	1,396
Sales of water and sewage charges	689	700
Sales of accommodation services	843	809
Sales of works canteens and catering services	371	393
Own work capitalized	8,058	9,098
Re-earned material	1,467	1,731
Others revenues	3,104	3,161
Total sales of other services	**19,486**	**20,790**

29 NET SALES

	31 December 2017	31 December 2016
Sales of services	178,435	179,920
Sales of goods	56	46
Subsidy in accordance with Operation of railway infrastructure Contract	274,075	272,481
Total net sales	**452,566**	**452,447**

30 MATERIALS AND CONSUMABLES

	31 December 2017	31 December 2016
Consumption of materials and consumables	-24,873	-22,914
Fuel consumption	-4,317	-4,052
Consumption of fixed asset	-5,612	-1,368
- Creation / + Reversals of allowances for inventories	-87	1,132
Total materials and consumables	**-34,889**	**-27,202**

31 ENERGIES

	31 December 2017	31 December 2016
Electricity	-67,413	-68,837
Gas	-2,120	-2,326
Steam and heat	-3,666	-3,362
Water	-1,583	-1,467
Total energies	**-74,782**	**-75,992**

32 SERVICES

	31 December 2017	31 December 2016
Repairs and maintenance	-21,817	-17,384
Costs of waste disposal	-3,038	-2,077
Costs of cleaning	-3,753	-3,755
Costs of information technology	-1,609	-1,725
Costs for machineries performance with operator	-538	-488
Paid rent and remuneration	-749	-662
Costs of diagnostics, metrology, project documentation, experts opinions	-950	-317
Costs of telecommunication services	-1,255	-1,237
Costs for sewage, sludge disposal	-1,040	-1,101
Materiology costs	-2,222	-1,744
Transportation if not included in the cost	-609	-691
Costs of software and software licences	-198	-38
Guarding, security and investigation services	-872	-814
IT support and consulting costs	-1,381	-944
of which costs of auditing services	-65	-65
Others	-3,291	-4,328
Total services	**-43,322**	**-37,305**

33 PERSONNEL COSTS

	31 December 2017	31 December 2016
Salary costs	-159,875	-156,353
Social security costs	-61,015	-59,139
Employee benefit provision	-55	-3,697
Other personnel costs	-12,831	-13,899
Total personnel costs	**-233,776**	**-233,088**

Average number of employees during the financial year as at 31 December 2017 was 13,823.73 (as at 31 December 2016: 14,008.61) and the Company employed 13,781 employees as at 31 December 2017 (as at 31 December 2016: 13,929 employees) of which manager employees directly responsible of general director is 39 (as at 31 December 2016: 40).

34 DEPRECIATION, AMORTIZATION AND IMPAIRMENT

	31 December 2017	31 December 2016
Depreciation and amortization	-179,110	-179,935
Release of subsidy for non-current assets	89,426	92,525
Impairment	1,919	1,685
Total depreciation, amortization and impairment	**-87,765**	**-85,725**

35 OTHER OPERATING COSTS, NET

	31 December 2017	31 December 2016
Fare	-4,088	-3,894
Taxes and fees	-3,016	-2,832
Property insurance	-2,390	-2,316
Other costs and revenues	151	-1,172
Reversal of allowances for receivables	12,028	12,644
Creation/Reversal of legal claims provision	-100	112
Settlement of provision for environmental burden	10,262	2,021
Total other operating costs, net	**12,847**	**4,563**

36 OTHER FINANCIAL COSTS AND INCOME

	31 December 2017	31 December 2016
Bank charges	-6	-11
Other financial expenses	-144	-50
Interest income	50	104
Other financial income	788	305
Total other financial costs and income	**688**	**348**

Despite the unfavourable situation in interest of deposits in banks at zero or negative rate, the Company managed to achieve revenue from deposit products in many cases.

Other financial income increased due to the change in the nominal value of shares of Železničná priemyselná stavebná výroba, a. s., Čaňa in the amount of EUR 749 thousand. Other financial income include income from financial investment – dividends in the amount of EUR 37 thousand (as at 31 December 2016: EUR 245 thousand).

37 CORPORATE INCOME TAX

	31 December 2017	31 December 2016
Profit before tax according to Slovak accounting standards	4,835	11,673
of which theoretical tax at	21%	22%
	1,015	2,568
Tax effect of		
Items increasing profit or loss	50,017	46,334
Items decreasing profit or loss	-83,205	-70,974
Tax base (+) / Tax loss (-)	-28,353	-12,966
Deferred tax	-48,147	-42,066
Tax expense	**3**	**3**
Temporary differences arising between the tax bases of assets and their carrying amounts, of which:	**357,622**	**327,113**
Deductible	**-59,381**	**-73,307**
- allowances for property, plant and equipment	-24,678	-26,598
- allowances for receivables	-30,032	-42,125
- allowances for inventories	-4,671	-4,584
Taxable	**417,003**	**400,420**
- Property, Plant and Equipment	408,294	391,773
- Financial investments recorded in equity	9	0
- Income recognized after payment	8,700	8,647
Temporary differences arising between the tax bases of liabilities and their carrying amounts, of which:	**-86,849**	**-95,959**
Deductible	**-86,849**	**-95,959**
- provisions recorded as expenses	-87,022	-90,356
- provisions recorded in equity	520	-5,365
- cost recognized after payment	-347	-238
Taxable	**0**	**0**
Possibility to carry forward tax losses in future	41,503	30,841
Tax rate	21%	22%
Deferred tax (+assets / -liabilities):		
- deferred tax at valid tax rate, net	-56,751	-52,034
- deferred tax recorded in equity	-111	1,180
- deferred tax from possibility to carry forward tax losses in future	8,715	6,785
Change in income tax rate to	21%	21%
Adjustment of deferred tax arising from change in tax rate (+ assets / - liability):		
- adjustment of deferred tax, net	0	2,365
- adjustment of deferred tax recorded in equity	0	-54
- adjustment of deferred tax from possibility to carry forward tax losses in future	0	-308
Total deferred tax (+ assets / - liabilities)	**-48,147**	**-42,066**
Change in deferred tax liability	**-6,081**	**-2,992**
recorded in income statement	-4,843	-3,753
recorded in equity	-1,238	761

In the period of taxation 2017 the Company disclosed tax loss in the amount of EUR 28,353 thousand (as at 31 December 2016: tax loss EUR 12,966 thousand). Due to the tax loss, the Company is obliged to pay the licence tax in the amount of EUR 2,880 under the Act No. 595/2003 Coll. on Income Tax as amended.

Withholding tax on interest in the amount of EUR 9 thousand was deducted in the period of taxation 2017 (as at 31 December 2016: EUR 19 thousand).

At the reporting date, the Company recorded deferred tax liability in equity from re-measurement of post-employment benefit in the amount of EUR 1,236 thousand (as at 31 December 2016: EUR deferred tax asset in the amount of EUR 761 thousand), deferred tax liability in equity from revaluation of financial investments in the amount of EUR 2 thousand (as at 31 December 2016: EUR 0) and deferred tax liability in the income statement in the amount of EUR 4,843 thousand (as at 31 December 2016: EUR 3,753 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 2018 – 2020 is set out in the table below:

Year	Track and infrastructure	IT and telecom	Total
2018	271,027	10,355	281,382
2019	141,746	1,389	143,135
2020	144,327	60	144,387
Total	**557,100**	**11,804**	**568,904**

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. At the reporting date, there was an extension of the legal claim from EUR 70 thousand to EUR 203 thousand, to which no provision has been recorded.

40 RELATED PARTY TRANSACTIONS

Based on the volume of realized transactions in 2017, 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 14.69 % (as at 31 December 2016: 14.25 %) and from Železničná spoločnosť Cargo Slovakia, a. s., represent 6.92 % (as at 31 December 2016: 7.46 %) of the total revenues for rendered services (Note 23).

Summary of liabilities and receivables is as follows:

	ZSSK CARGO		ZSSK	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Liabilities	19	117	73	92
Receivables	22,834	32,258	2,736	2,401
Allowances	19,061	26,559	0	0

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 EUR 250,000 thousand in 2017 and will be evaluated within the half of 2018. Based on this Contract, compensation of financial impact in the amount of EUR 24,100 thousand was provided to the Company, associated with reduction in charges for access to railway infrastructure for cargo carriers (Note 24). The actual compensation drawing was EUR 24,086 thousand, whereby undrawn funds in the amount of EUR 14 thousand were returned to the account of Ministry of Transport. Operation of the Railway Infrastructure Contract for the year 2016 was evaluated on 12 July 2017, resulted to return of funds in the amount of EUR 11 thousand to the account of Ministry of Transport.

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 2017 are in the amount of EUR 3,830 thousand (as at 31 December 2016: EUR 3,696 thousand). As at 31 December 2017, the Company records liabilities in the amount of EUR 458 thousand (as at 31 December 2016: EUR 455 thousand).

As at 31 December 2017, the Company records receivables from associated company Železničná priemyselná stavebná výroba, Čaňa in the amount of EUR 2 thousand (as at 31 December 2016: EUR 1 thousand) for technical services and training. Revenues for the year 2017 were in the amount of EUR 14 thousand (as at 31 December 2016: EUR 12 thousand). As at 31 December 2017 and as at 31 December 2016 the Company records no liabilities to this company (Note 7).

As at 31 December 2017 and as at 31 December 2016, the Company records no receivables from associated company Betamat, a. s., Zvolen and as at 31 December 2017 records liabilities in the amount of EUR 5 thousand (as at 31 December 2016: EUR 426 thousand) for operational performances. Revenues for the year 2017 were in the amount of EUR 12 thousand (as at 31 December 2016: EUR 2 thousand) (Note 7).

In 2017 the Company paid out employee benefits in the amount of EUR 593 thousand (in 2016: EUR 657 thousand) to the key management of the Company, of this Administrative Board in the amount of EUR 118 thousand (as at 31 December 2016: EUR 63 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

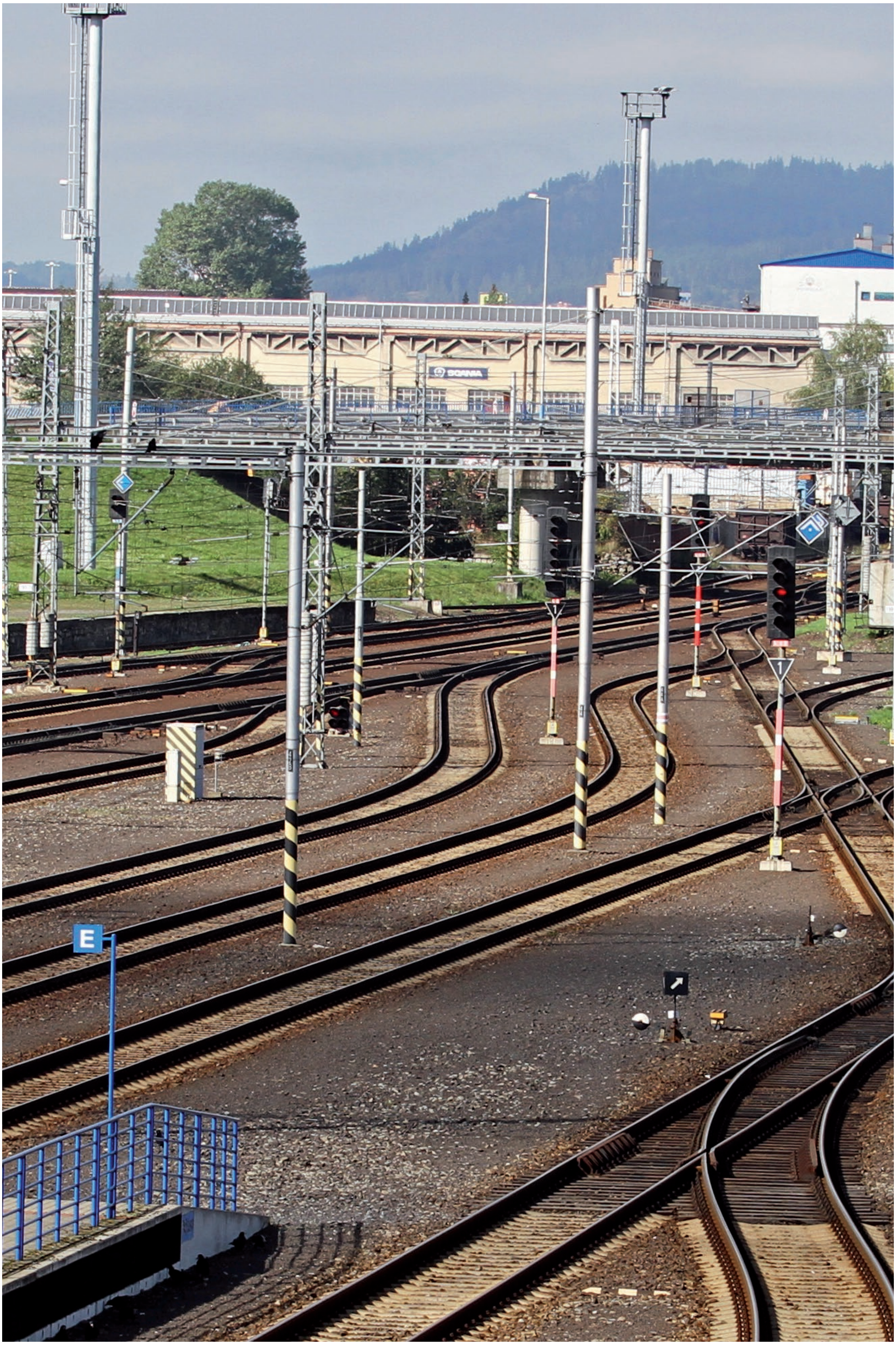
Financial statements in notes 1 to 42 were prepared and signed on behalf of the Company on 5 March 2018:

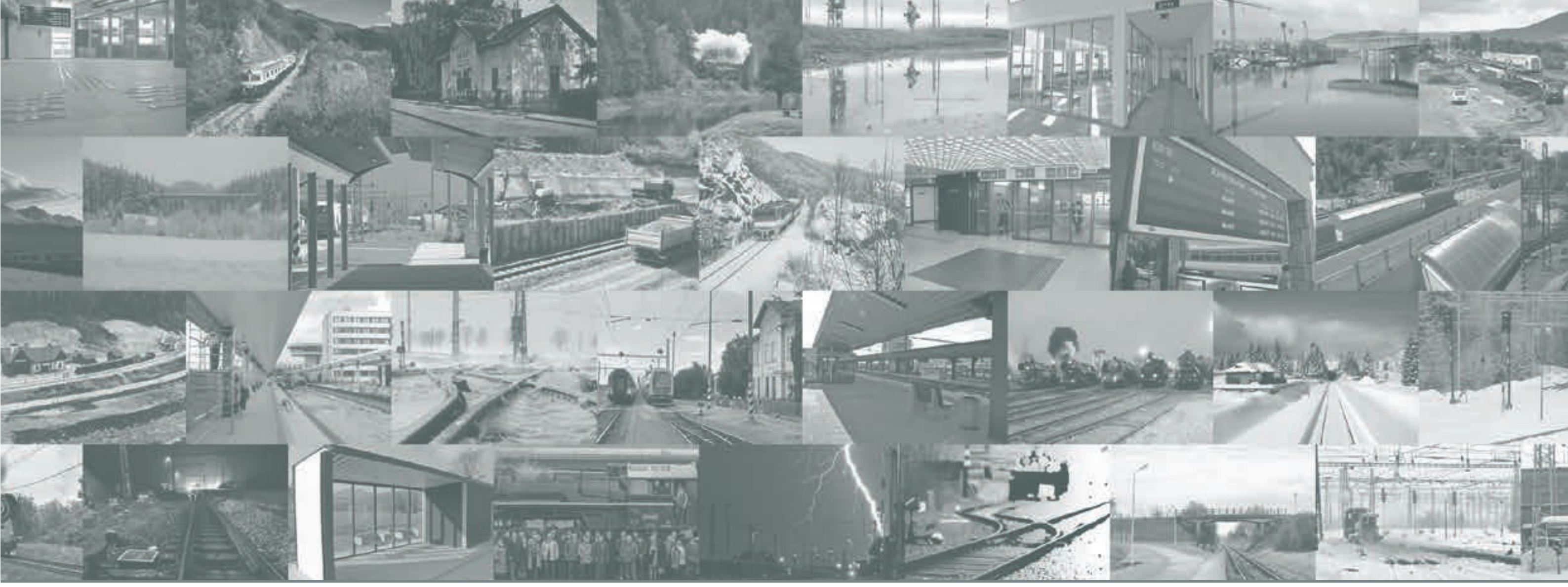
statutory authority of the entity

Mgr. Martin Erdössy
General Director

List of signs and abbreviations

a. s.	Joint-stock company
BOZP	Safety and health at work
CEF	Connecting Europe Facility
CER	Community of European Railway and Infrastructure Companies
ČD	Czech Railways
ČR	Czech Republic
DHM	Long-term tangible assets
DNM	Long-term intangible assets
DSPRS	Documentation for building permit for construction realization
DÚR	Documentation for territorial decision
EON	Economically eligible costs
EOV	Economically eligible revenues
EÚ	European Union
GAP	Financial gap
GR ŽSR	Directorate General of Železnice Slovenskej republiky
GySEV	Hungarian – Austrian Railway Company (Győr-Sopron-Ebenfurti Vasút)
HaZZ	Fire and Rescue Service
HKV	Motive power unit
hrtkm	Gross tonne kilometer
IAD	Individual car transport
IT	Information technologies
KF	Cohesion Fund
km	Kilometre
KM	Track mechanization
KR	Complete reconstruction
ks	Piece
KV	Railway vehicle
m	Meter
MÁV	Hungarian State Railways (Magyar Államvasutak Zrt)
MDV SR	Ministry of Transport and Construction of the Slovak Republic
MO	Bridge section
MSF	Outside co-financing
MVTV	Overhead contact line motor train
NFP	Non-repayable financial contribution
NN	Ineligible costs
NR SR	National Council of the Slovak Republic
NRT	Standard gauge railway line
ÖBB	Austrian Federal Railways
OOPP	Personal protective work equipment
OPII	Operational Programme Integrated infrastructure
OR	ŽSR Regional Directorate – ŽSR Directorate General regional divisions in Žilina, Zvolen, Košice and Trnava
OSŽD	Organisation for Co-operation between Railways
PD	Project documentation
PEÚ	Pre-electrification adjustments
PKP	Polish State Railways
RNE	Rail Net Europe – Association of European Infrastructure Managers
SR	Slovak republic
SŽDC	Railway Infrastructure Administration, state organisation - state-owned enterprise managing the railway infrastructure in the Czech Republic
ŠD	State subsidy
ŠR	State budget
ŠRT	Broad-gauge railway line
ŠÚ SR	Statistical Office of the Slovak republic
TENT	EU fund
TV	Overhead contact lines
UAB	Universal automatic block
UIC	International Union of Railways
ÚRŽD	Railway Regulatory Authority
UZ	Ukrainian Railways
VH	Business result
vlkm	Train kilometre
VOJ ŽSR	Internal organizational Unit of Železnice Slovenskej republiky
VZ	Internal resources
Z. z.	Collection of Laws
ZC	Residual price
ZPŽI	Contract on railway infrastructure operation
ŽI	Railway infrastructure
ŽSR	Železnice Slovenskej republiky
ŽST	Railway station





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