

(SELECTED DATA) **ANNUAL REPORT**

OF THE RAILWAYS OF THE SLOVAK REPUBLIC 2005





The railway station in Šurany is an important intersection in the southwestern part of Slovakia.

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One of the two bridges at Strečno.

ADDRESS BY THE DIRECTOR GENERAL



The Railways of the Slovak Republic (ŽSR) can be viewed as extraordinarily successful. The results achieved in the area of management and economic stability have confirmed the processes set in the last several years have been correct. The activity of ŽSR in the year 2005 was focused in particular on the fulfilment of the challenging objectives in the following areas:

- Securing of the balanced railway transport route management while maintaining the basic parameters for the railway transport security, maintenance and quality of services.
- Consolidation and elimination of risks resulting from the debt service in accordance with the Plan for Fulfilment of ŽSR's Consolidation Function.
- Transition of the changes resulting from the 2nd stage of ŽSR's management and organisation system change and minimization of the risks resulting from such change.
- Rationalisation and separation of other ineffective activities.
- Making investments from own available sources and providing for the maximum utilisation of the funds intended for implementation of the projects financed from the EU Funds and from the budget of the public administration of the Slovak Republic.

In the area of management, positive results have been achieved. In 2005, ŽSR recorded a loss of SKK 282.4 mil., which is an improvement by SKK + 23.9 when compared with the projections. The result from the economic activity (i.e. the economic area that ŽSR can influence) was a profit of SKK 369.70 mil., which is a result better by SKK + 626.10 mil. when compared with the projections.

Positive results have also been achieved in the areas of revenues and expenditures regulation and the debt service restructuring. When compared with the year 2004, the tendency to reduce the share of total indebtedness was secured, the state of bank loans and borrowings decreased and the trade liabilities after date of maturity declined considerably in 2005. ŽSR fully fulfilled its payment obligations towards public institutions and in the area of economic activity, it managed to create conditions enabling it to act towards its suppliers as a partner able to fulfil its obligations.

The year 2005 saw the implementation of measures resulting from the project of the 2nd stage of the change of the management and organisation of the railway transport route segment and from re-evaluation of other activities. Within ŽSR, the activities of management and administration were separated from the transport route maintenance. As of January 1, 2005, separate internal units were created - Regional Directorates seated in Trnava and Košice oriented to transport management and administration, and the Railway Infrastructure Maintenance seated in Bratislava. In the period from September 1, 2005 to February 1, 2006, a gradual transformation (delimitation outside ŽSR) was carried out in the area of providing medical services. During the year, the process of the Vocational Schools detachment as of January 1, 2006 was prepared and the activities in the area of information technologies, company education and services were rationalised.

The total number of employees on average, compared to 2004 declined, by 1,307 achieving the number of 19,633. In 2005, social compensations, severance payments and retirement benefits in the total amount of SKK 173,60 mil. were paid to laid off employees to mitigate the impact of the measures in accordance with the Collective Contract. However, the positive trends in economics could not be achieved by ŽSR measures only. We appreciate the willingness of the government to eliminate risks and deal with the impacts of deformations of the past. In November 2005, the government approved evaluation of the control mechanism and update of the Plan for Fulfilment of ŽSR Consolidation Function by 2009.

In the area of investments, works and supplies in the amount of SKK 6,211,60 mil. were carried out in 2005. When compared with 2003 and 2004, considerably more money was invested into electrification, dispatching, modernisation and reconstruction of tracks and IT technologies. However, the situation remains unfavourable in low level technological base. The draft budget of the public administration in the Slovak Republic for the years of 2007-2009, as well as the account balance of investment sources after 2006 (investment sources in the total amount of SKK 11,655 mil.) indicate that improvements may be anticipated in this area as well.

In accordance with contract with the government ŽSR provided for the operation and servicing of railway tracks in the length of 3,685.00 km. On ŽSR's tracks, 17 forwarders (operators) operated in the extent of 49,2 mil. train kilometres. Although in freight haulage, the number of operators increased by 3, the development in this segment showed a slight decrease. The year 2005 saw the continuation of the process of modernisation of the railway infrastructure. ŽSR made full use of eurofunds for the financing of the modernisation projects. The works continued on the tracks between Bratislava and Piešťany, while the most work has been done around Trnava. In 2005 we completely unfolded the project of electrification of the Zvolen - Banská Bystrica section, which used financial means of the EU Structural Funds. It was one of the first projects to have used the Structural Funds for the improvement of the Slovak infrastructure. The results achieved in 2005 clearly prove that the Railways of the Slovak Republic have been on the right track and have its value and place in the modern society of today.

Ing. Roman Veselka
ŽSR Director General





COMPANY PROFILE

ŽSR was established by Law No. 258/1993 Coll.L. on the Railways of the Slovak Republic, under which the activities of a track and track transport operator have been performed.

In accordance with the approved transformation and restructuring project, ŽSR was transformed, effective as of January 1, 2002 by operation of the Law No. 259/2001 Coll.L. to Železničná spoločnosť, a.s. and on amendment of the Act of the National Council of the Slovak Republic No. 258/1993 Coll.L.

Pursuant to the above-mentioned legal regulations, the Railways of the Slovak Republic undertake the activities related to railway tracks operation, railway tracks transport management and railway tracks serviceability.

ŽSR's scope of business encompasses the following:

a) core business

1. operation of railway tracks and cableway tracks under a special regulation;
2. activities related to operation of railway tracks and cableway tracks;
 - 2.1. establishment and operation of railway telecommunication and radio networks;
 - 2.2. construction, modifications and maintenance of railway tracks and cableway tracks, including environmental facilities;
 - 2.3. maintenance and repairs of transport means, production, maintenance and repairs of special machines, equipment and materials, including inspection and diagnostic services;
 - 2.4. provision of services in catering, accommodation and cultural facilities;
 - 2.5. real-estate leasing;
 - 2.6. automated data processing and transmission;
 - 2.7. metrological services and defectoscopy, diagnostics and measurement of physical quantities, geodetic and cartographic activities;
 - 2.8. rendition of services of the leading standardisation centre in railway transport industry;
 - 2.9. manufacture, installation, repair and reconstruction of electric and electronic equipment, including inspection and diagnostics;
 - 2.10. trans-shipment of goods, re-linking and binding of rail vehicles and change of transport arrangement of transported goods at track gauge change points;
 - 2.11. provision of special health care for employees in selected professions;
3. transport operation on tracks for the following purposes:
 - 3.1. construction, modification and maintenance of railway tracks and cableway tracks;
 - 3.2. provision of manipulation services, utility transport services and utility conveyance services for track transport operators.



**b) other (non-core) business activities recorded
in the Register of Companies:**

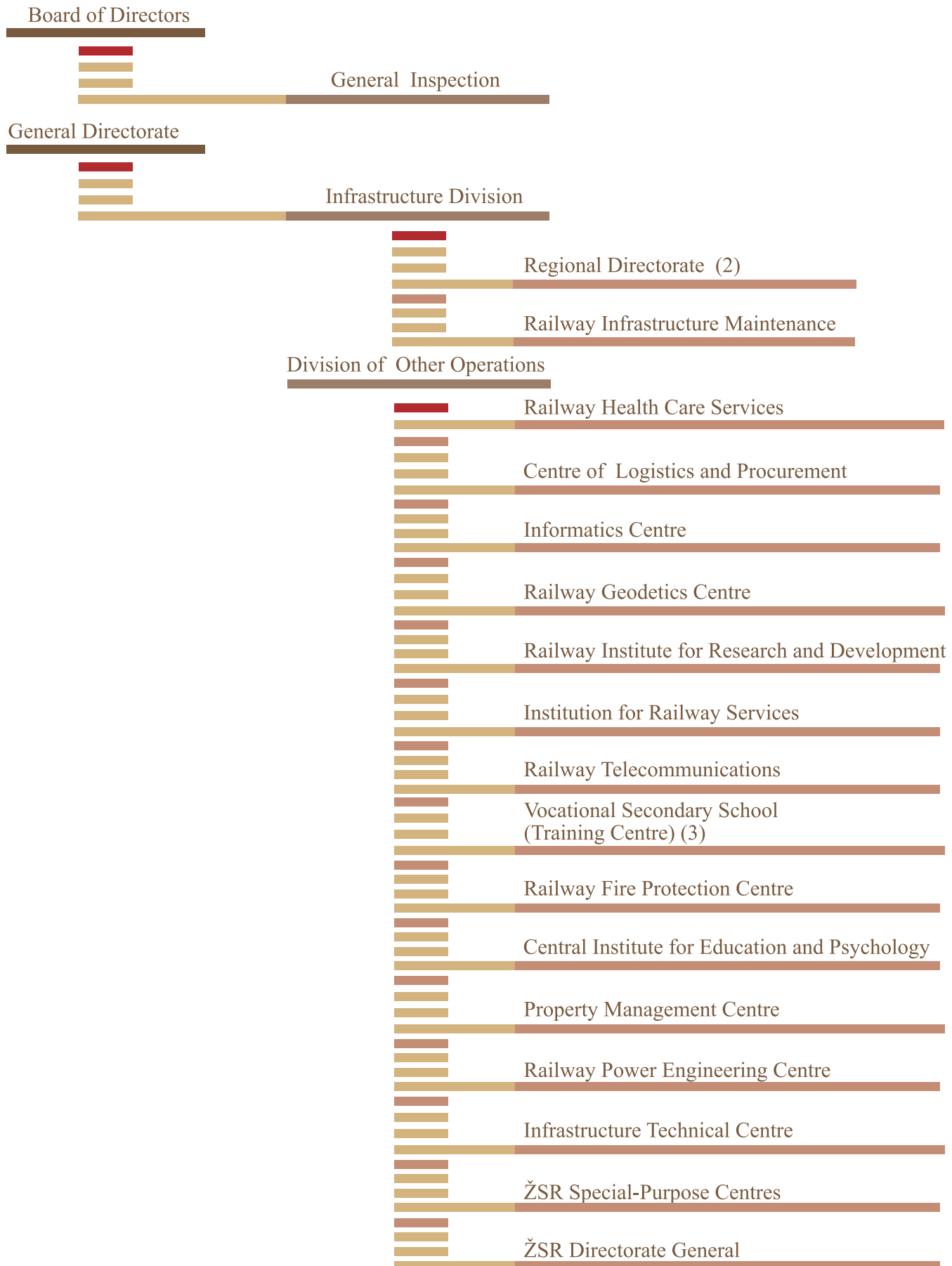
1. designing activity in capital construction;
2. engineering activity;
3. advertising and promotional activity;
4. copying and photographic activity;
5. organizing of educational and training activities;
6. examining of the professional qualifications of the employees of the railway and special tracks operators and the employees of the operators of transport on railway and special tracks and issuing of professional qualification certificates;
7. examining of the psychological aptitude of the employees of the railway and special tracks operators and the employees of the operators of transport on railway and special tracks and issuing of psychological aptitude certificates;
8. psychological activities of non-clinical character;
9. operation of a travel agency;
10. therapeutic and preventive health care;
11. purchase of goods for the purpose of their resale to other tradesmen (wholesale);
12. purchase of goods for the purpose of their resale to end users (retail);
13. agency activities;
14. production of heat and electricity and heat distribution;
15. tests of rolling stock for railway and special tracks;
16. establishment and operation of public telecommunication network and provision of public telecommunication services;
17. provision of pharmaceutical care;
18. activities of accounting consultants;
19. bookkeeping;
20. provision of software - sale of ready-made software products based on a contract with the author
21. advisory and consultation activity in the area of hardware and software;
22. preparation of young people for a job and related activities;
23. research and development activity for construction and operation of tracks of any kind;
24. research and development activity for operation of transport on tracks of any kind;
25. maintenance, exhibition and demonstration of historic track vehicles for railway and special tracks, including track machines and special equipment;
26. operation of transport on railway and special tracks using nostalgic trains;
27. inspections of selected technological compressive devices;
28. examinations, inspections and tests of selected technological gas services;
29. examinations, inspections and tests of mechanical parts of lifting devices.



A platform at the railway station in Trenčianska Teplá.

ORGANISATIONAL STRUCTURE

THE ORGANIZATIONAL STRUCTURE OF ŽSR IN 2005:



In 2005 ŽSR had no separate organisation unit abroad.



Railway station in Ružomberok.

BOARD OF DIRECTORS

Pursuant to the provisions of Sections 4 and 5 of the Law No. 258/1993 Coll.L. on ŽSR as amended by Act of the National Council of the Slovak Republic No. 152/1997 Coll.L. and Act of the National Council of the Slovak Republic No. 259/2001 Coll.L., the Board of Directors and the Director General are the statutory bodies of ŽSR. The Board of Directors, comprised of 9 members, is the supreme body of ŽSR. As of December 31, 2005, the Board of Directors of ŽSR was composed as follows:



JUDr. Oszkár VILÁGI

Chairman of the Board of Directors



PhDr. Vladimír DROZDA, CSc.

Vice-Chairman of Board of Directors



Ing. Jana ČERVENÁKOVÁ

Member of the Board of Directors

Ing. Ján MARCIN

Member of the Board of Directors

Ing. Pavol KUŽMA

Member of the Board of Directors

Ing. Rudolf PECAR

Member of the Board of Directors

Ing. Dušan TURANOVIČ

Member of the Board of Directors

Mgr. František PETROCI

Member of the Board of Directors

František ZAPARANIK

Member of the Board of Directors

EXECUTIVE BODY



An interesting combination of two man-made constructions at Strečno forms both a bridge over the River Váh and a tunnel.

Composition as of December 31, 2005



Ing. Roman VESELKA

Director General of ŽSR

Ing. Milan SOLÁRIK

Deputy Director General for Operation
(acting since May 6, 2005)

Ing. Valerián HORVÁTH

Deputy Director General for Development & IT

Ing. Štefan HLINKA

Deputy Director General for Economy

Ing. Ján ŽAČKO

Deputy Director General
for Human Resources

IMPORTANT EVENTS IN 2005

ORGANISATION STRUCTURE CHANGE

Through implementation of the 2nd stage of ŽSR management and organisation system change, new organisation units were established and started their operation on January 1, 2005:

For administration of the railway infrastructure assets, organisation and operation of the transport on track:

- Regional Directorate Trnava, Regional Directorate Košice

For the railways infrastructure maintenance:

- Railways Infrastructure Maintenance, Bratislava

Pursuant to the resolution of ŽSR Board of Directors No. 21/2005 dated February 17, 2005, a decision to establish the Centre for Logistics and Procurement was taken. The mission of the Centre is to provide for procurement and distribution of goods, for procurement of services and works needed by ŽSR organisation units. It started its operation on June 1, 2005.

For central management of logistics and procurement:

- Centre for Logistics and Procurement Bratislava

ORGANISATION UNITS DETACHMENT

Transfer of medical facilities into economic lease

On basis of concluded contracts for provision of services and economic lease, the following medical facilities have been leased out:

- Railway Medical Centre Zvolen since 1. 9. 2005
- Railway Hospital with Medical Centre Košice since 1.10. 2005
- Railway Hospital with Medical Centre Bratislava since 1. 11. 2005

Preparation of railway vocational schools detachment

By virtue of the decision of the Minister of Education of the Slovak Republic dated December 13, 2005, there was a change of the railway vocational schools founder with the effect as of January 1, 2006, when the following educational organisation units in ŽSR structure were dissolved:

- Railway Vocational School Bratislava
- Railway Vocational School Trenčín
- Railway Vocational School Kosice

ŽSR'S CONSOLIDATION FUNCTION

Approval of the control mechanism evaluation, financial model and update of the plan for fulfilling ŽSR's consolidation function for the years 2005 - 2009 (Government Resolution No. 898/ 2005).

ADOPTION OF THE LAW No. 109/2005 Coll. L.

The Law No. 109/2005 Coll. L. dated February 9, 2005 amends the Law No. 164/ 1996 Coll. L. on railways.

The law deals with:

- changes of the contractual relationship between ŽSR and the State after January 1, 2006.
- the necessity to introduce a new system of financial relations with the state.
- establishment of the Authority for Railway Transport Regulation and resulting changes in the regulation system for railways operation, in particular in regulating the concept of charges for using the railways transport route.
- changes in the system of ensuring the interoperability.

REMOVAL OF THE NATURAL DISASTER CONSEQUENCES IN THE HIGH TATRAS

In November 2004, the natural disaster in the High Tatras caused great damages to the tracks of Tatry Electric Railways. Most damages were in the section of Štrbské Pleso - Starý Smokovec where the whole overhead line and local segment of the tracks had to be restored. Renovation of the destroyed section lasted till June 10, 2005. The state contributed to the renovation by the amount of SKK 21,240 thousand. Other costs for removal of the damages were covered from ŽSR's own resources.

INFORMATION

ABOUT COMPANY DEVELOPMENT



Signaler posts are inseparable parts of railways.

INFRASTRUCTURE

ŽSR manages and operates nationwide and regional railway tracks with the following characteristics:

Parameter / Year	2003	2004	2005	Index	
				2004/2003	2005/2004
RAILWAY LINES AND STRUCTURES					
Total construction length of lines (in km)	3 657	3 660	3 658	1,001	0,999
Out of that:					
Single-railed lines	2 638	2 640	2 639	1,001	1,000
Double and multi-railed lines	1 019	1 020	1 019	1,001	0,999
Broad-gauge lines	100	100	99	1,000	1,000
Standard-gauge lines	3 507	3 510	3 509	1,001	1,000
Narrow-gauge lines	50	50	50	1,000	1,000
Non-electrified lines	2 101	2 104	2 102	1,001	0,999
Electrified lines	1 556	1 556	1 556	1,000	1,000
where:					
Electrified AC 25000 V/50 Hz	738	737	737	0,999	1,000
DC 3000 V (other)	818	819	819	1,001	1,000
Total construction length of lines (in km)	6 877	6 881	6 878	1,001	0,999
Out of that:					
- main tracks	4677	4 677	4 674	1,000	1,000
- other station tracks	2 200	2 204	2 204	1,002	1,000
Number of switches	8 773	8 767	8 759	0,999	0,999
Number of switching units	9 777	9 771	9 758	0,999	0,999
Number of bridges	2 283	2 283	2 283	1,000	1,000
- steel	504	504	504	1,000	1,000
- solid	1 779	1 779	1 779	1,000	1,000
Total lengths of bridges (m)	46 762	46 762	46 762	1,000	1,000
Number of tunnels	76	76	76	1,000	1,000
- single-track	69	69	69	1,000	1,000
- double-track	7	7	7	1,000	1,000
Total length of tunnels (m)	43 375	43 375	43 375	1,000	1,000
Railway crossings	2 344	2 333	2 328	0,995	0,998



Parameter / Year	Index				
	2003	2004	2005	2004/2003	2005/2004
INTERLOCKING EQUIPMENT					
Block systems					
Automatic block (km)	690	690	690	1,000	1,000
- one-way	280	280	280	1,000	1,000
- bi-directional	410	410	410	1,000	1,000
Automatic barrier gate (km)	74	154	154	2,081	1,000
Semi-automatic block (km)	1 195	1 115	1 115	0,933	1,000
- Relay	875	805	805	0,920	1,000
- Block	320	310	310	0,969	1,000
Lines with telephone intercommunication	1 978	1 978	1 978	1,000	1,000
Station interlocking equipment					
Operating posts with mechanic interlocking	234	234	234	1,000	1,000
Operating posts with electromagnetic interlocking	102	101	101	0,990	1,000
Operating posts with relay interlocking	130	130	130	1,000	1,000
Operating posts with combined interlocking	305	305	305	1,000	1,000
Operating posts with electronic interlocking	2	3	3	1,500	1,000
Remote controlled interlocking by dispatcher (km)	95	175	175	1,842	1,000
Train interlocking equipment					
Lines with information transmission to train interlocking (km)	554	554	554	1,000	1,000
Crossing interlocking equipment					
Unprotected crossings (units)	1 319	1 319	1 319	1,000	1,000
Protected crossings (units)	1 160	1 160	1 160	1,000	1,000
- mechanic crossing barriers	167	164	162	0,982	0,980
- light signalling equipment	993	996	998	1,003	1,005
Hump interlocking equipment					
Track brakes (units)	94	94	94	1,000	1,000
Mechanized humps (units)	8	8	8	1,000	1,000
Semi-automated humps (units)	0	0	0	0,000	0,000
Automated humps (units)	1	1	1	1,000	1,000
Compression plants (units)					
- packed three-dimensional (mobile)	9	9	9	1,000	1,000
- packed spiral (mobile)	2	2	2	1,000	1,000
- stationary (hall)	12	12	12	1,000	1,000

CARRIERS

SERVICES ON RAILWAY TRACK

The Railways of the Slovak Republic provided for operation of railway tracks in order to meet the needs of passenger and freight transport in accordance with the Contract for Services in the Public Interest made by and between ŽSR and the Slovak Ministry of Transport, Posts and Telecommunications, as well as under track transport operation agreements with carriers.

PASSENGER TRANSPORT

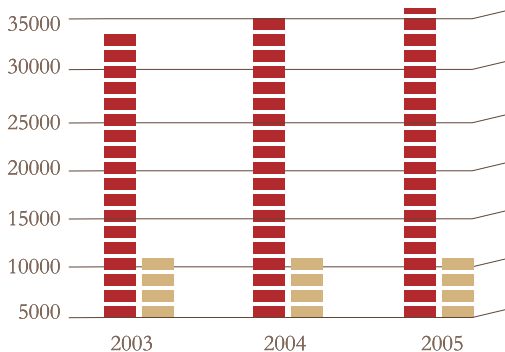
Performance / period	2003	2004	2005
Total (thousands of train km)	30 974	31 357	31 737
Total (mil. gross train km)	8 942	8 322	8 308

PASSENGER TRANSPORT SERVICES IN 2005 BY TYPE OF TRAIN

Type of train		Thousands of gross train km	Train km
Eurocity, Intercity	(EC, IC)	738 688	1 606 009
Express	(Ex)	297 491	725 323
Fast	(R)	3 113 892	6 626 505
Local express	(Zr)	333 349	1 254 234
Slow train	(Os)	3 735 030	21 077 043
Extra slow train	(Mimos)	13 347	40 894
Set train	(Sv)	50 138	167 423
IC set train	(Sv IC)	2 444	5 831
Set train - lockouts	(SV výluka)	1 659	6 259
Special train	(OsOs)	1 946	5 200
Service train	(Osluz)	0	3
Set train for freight transport	(NDSv)	3 120	8 343

PASSENGER TRANSPORT

■ Thousands train km
■ Mil. gross train km





Notice and safety technologies are important parts of the Railway company.

FREIGHT TRANSPORT

Performance/ period	2003	2004	2005
Total (thousands of train km)	18 449	17 599	17 445
Total (mil. gross train km)	22 420	21 417	21 140

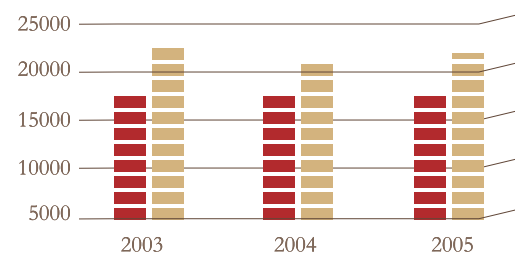
FREIGHT TRANSPORT SERVICES IN 2005 BY TYPE OF TRAIN

Type of train		Thousands of gross train km	Train km
Through freight train	(Pn)	19 181 330	12 459 574
Way freight train	(Mn)	981 001	2 417 142
Exchange freight train	(Pv)	1 360	6 425
Express freight train	(Nex)	492 790	506 980
Service freight train	(NDsluz)	354	370
Work-siding train	(Vlec)	4 797	21 990



FREIGHT TRANSPORT

■ Thousands train km
■ Mil. gross train km





The railway station in Komárno represents a connection link between Slovakia and Hungary.

PASSENGER TRAIN

TIMETABLE FULFILMENT

Type of train	2003	Reality		Index		in %
		2004	2005	2004/2003	2005/2004	
International fast trains	94,44	90,80	92,07	0,961	1,014	
Inland fast trains	92,17	92,97	92,13	1,009	0,991	
Slow trains	97,84	97,52	97,33	0,997	0,998	
Total passenger transport	97,35	97,09	96,89	0,997	0,998	

Revenues / period	(in SKK thousands)		
	2003	2004	2005
Total	7 351 377	7 070 259	6 940 703
Out of that:			
Železničná spoločnosť, a.s.	7 325 161	7 034 696	
Passenger transport	1 654 930	1 773 265	
Freight transport	5 670 231	5 261 431	
Železničná spoločnosť Slovensko, a.s.			1 727 287
Passenger transport			1 727 287
Železničná spoločnosť Cargo Slovakia, a.s.			5 122 331
Freight transport			5 122 331
Other carriers	26 216	35 563	91 085
Passenger transport	2 049	6 673	2 711
Freight transport	24 167	28 890	88 373

Providing route sections on the operated railway infrastructure has been the main sales product for ŽSR since January 1, 2002. Until 2001, the railway infrastructure served to provide intra-company services to ŽSR commercial divisions. Route sections are sold at government-regulated prices. Revenues from the railway infrastructure use represent 68.95% of ŽSR total revenues from own outputs and services.

In 2005, transport on the track was conducted by 17 carriers. One carrier provided for the passenger transport operation, one carrier provided for both the passenger and freight transport operation and 15 carriers provided for the freight transport.

REVENUES FROM USE OF THE RAILWAY

The interior of the Komárno station has been decorated with paintings depicting life of people.





The Tatry stations have unique architecture, and Starý Smokovec is no exception.

ŽSR FINANČNIAL RESULTS

(according to the Slovak accounting standards)

ŽSR financial results were significantly affected by Resolutions of the Government of the Slovak Republic No. 898/2005 regarding the Plan for Fulfilment of ŽSR Consolidation Function and its updates.



Within the adopted and updated Plan, the following financial measures were implemented by the government in 2005:

- adjusted repayment schedule for the loan from the State financial assets;
- adopted repayment schedule for solving ŽSR liabilities towards Slovenská konsolidačná, a.s.;
- adjusted repayment schedule for the recoverable financial aid from the Ministry of Finance of the Slovak Republic for solving the repayment of the outstanding principal to the Social Insurance Company;
- secured repayments of the outstanding amounts of principal and interests to the loans with state guarantee for 2005 through the National Property Fund of the Slovak Republic.

In 2005, the Ministry of Transport, Posts and Telecommunications and ŽSR entered into a Contract for Services in the Public Interest in operating the tracks. The Contract stipulates a fixed sum of SKK 3,600 million for losses to be covered by the state in order to secure the operations and operability of nationwide and regional railroads.

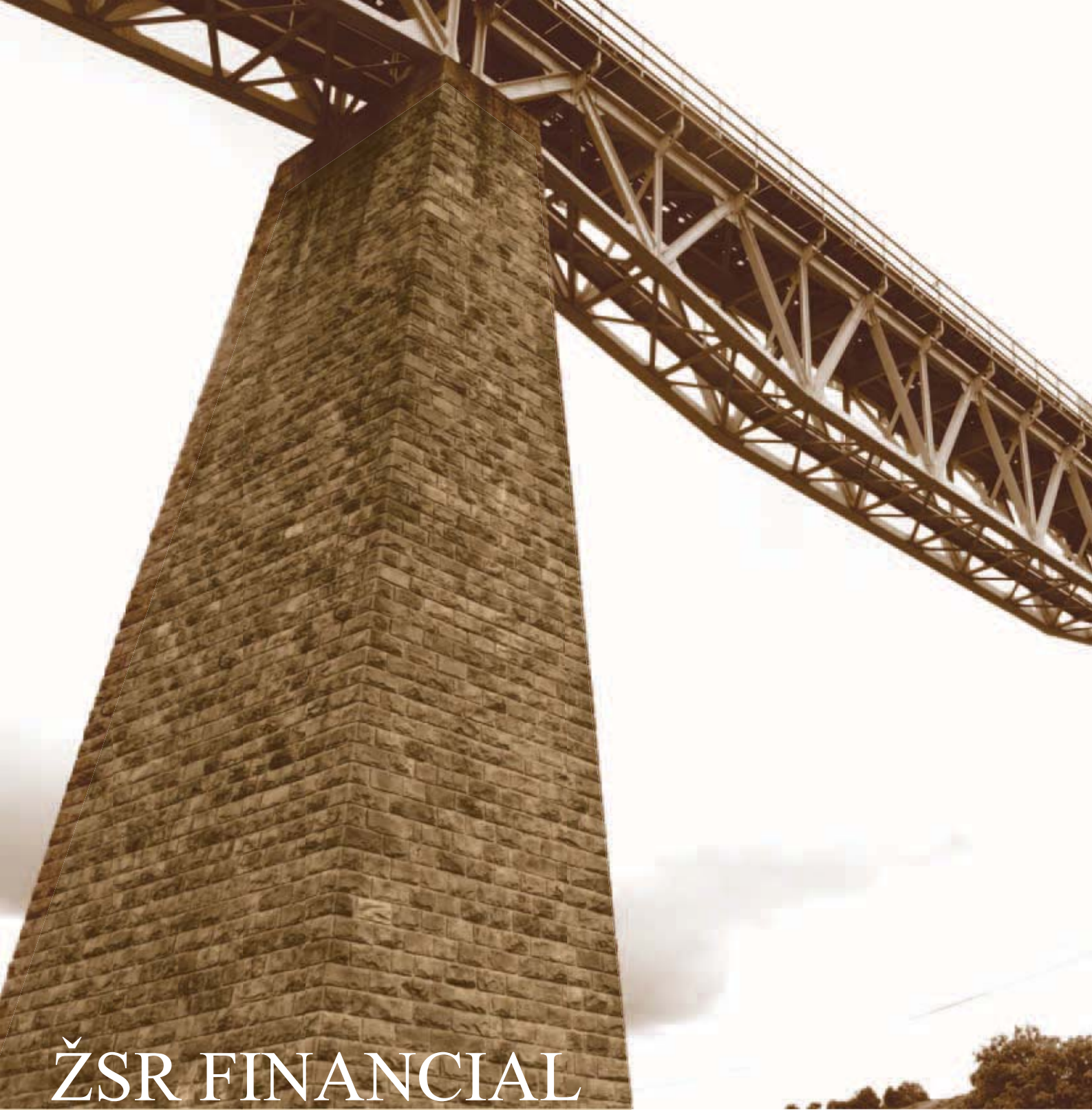
Based on accounting records for 2005, ŽSR had total revenues of SKK 19,277,746 thousand, out of which revenues from sale of own products and services were SKK 10,146,151 thousand and the total costs were SKK 19,560,101 thousand, out of which the production expenditures were SKK 4,375,278 thousand and personnel costs were 6,244,358 thousand, which resulted in a loss in the amount of SKK 282,355 thousand, out of which the loss from core business (operation and management of nationwide and regional railroads) was SKK 280,038 thousand and the loss from other activities was 2,317 thousand.

Compared with the figures planned for 2005, the achieved financial result was better than expected by SKK 23,867, thousand, whereby the recorded costs were lower by 70,837.00 and the revenues were lower by 46,970.00 than the plan expected.

The achieved financial results were created by:

- a profit of SKK 369,734 thousand from operating activities
- a loss of SKK 1,199,074 thousand from financial activities
- a profit of SKK 546,985 thousand from extraordinary activities

	(SKK mil.)		
	2003	2004	2005
Costs	21 641	21 046	19 560
Revenues	20 685	21 933	19 278
Profit /Loss	-956	887	-282



ŽSR FINANCIÁL RESULTS

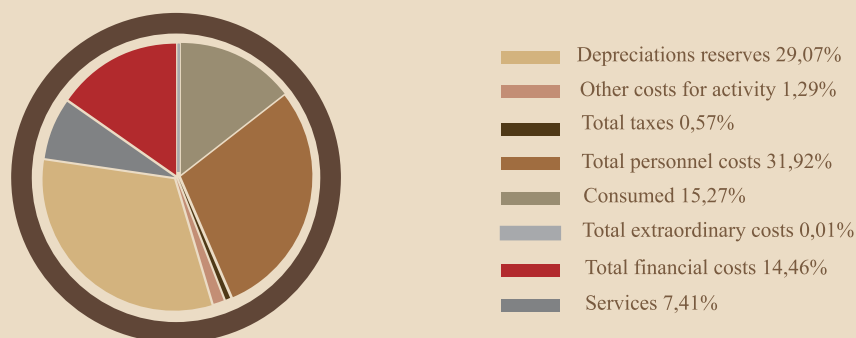
(according to the Slovak accounting standards)

Railway viaduct at Hanušovce nad Topľou.

The amount of the costs recorded was particularly affected by:

- costs of consumed purchases in the amount of SKK 2,986,824 thousand,
- services in the amount of SKK 1,450,341 thousand,
- personnel costs of SKK 6,244,358 thousand out of which wage costs were SKK 4,286,902 thousand,
- tangible and intangible fixed asset depreciation of SKK 3,166, 881 thousand,
- creation of statutory reserves for operations in the amount of SKK 1,561,606 thousand,
- creation of provisions in the amount of SKK 837,127 thousand,
- interest expenses for 2005 totalled SKK 1,491,052 thousand,
- creation of reserves for financial activities in the amount of SKK 1,151,677 thousand.

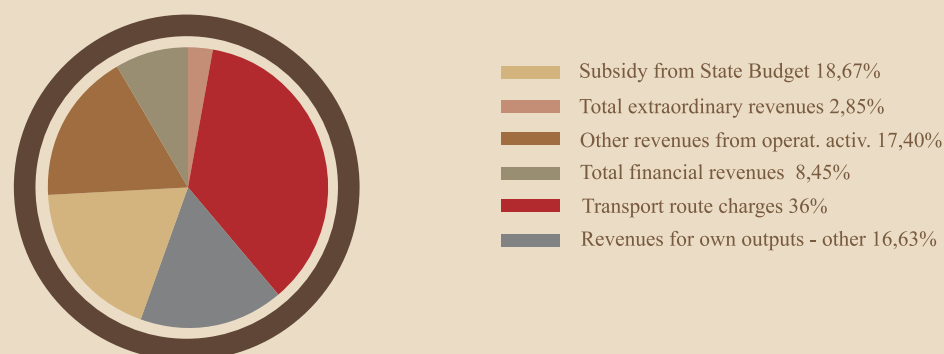
SHARE OF SELECTED COST ITEMS IN TOTAL COSTS



The amount of the revenues recorded was particularly affected by:

- revenues from charges for the use of the railway infrastructure in the amount of SKK 6,940,703 thousand,
- revenues from sale of traction electric power in the amount of SKK 1,714,182 thousand,
- subsidy from the State Budget to cover losses resulting from the Contract for Services in the Public Interest in the amount of SKK 3,600,000 thousand,
- settlement of the statutory reserves from operating activity in the amount of SKK 1,544,759 thousand,
- settlement of provisions in the amount of SKK 812,596 thousand,
- foreign exchange gains amounting to SKK 440,518 thousand,
- settlement of reserves to financial revenues in the amount of SKK 1,157,362 thousand,
- extraordinary revenues amounting to SKK 548,805 thousand.

SHARE OF SELECTED REVENUE ITEMS IN TOTAL REVENUES





Two man-made constructions, a tunnel and a bridge, on the SNP tracks between Banská Bystrica and Horná Štubňa.

ŽSR FINANCIÁL RESULTS

(according to the Slovak accounting standards)

Regarding the operations, the greatest share in ŽSR costs and revenues is attributable to its core business consisting of the operation and management of the railway infrastructure for the needs of passenger and freight transport.

The total loss from the core business in the amount of SKK 280,038 thousand resulted from the loss from operation of railroads for freight transport in the amount of SKK 169,262 thousand and the loss from operation of railroads for passenger transport in the amount of SKK 110,776 thousand.

CORE BUSINESS

		(SKK mil.)		
Railroads operation and management for:		2003	2004	2005
Passenger transport	Costs	5 044	4 648	4 188
	Revenues	3 365	3 878	2 653
	Subsidy from State Budget	818	994	1 424
	Profit/Loss	-861	224	- 111
Freight transport	Costs	11 211	10 592	9 693
	Revenues	9 491	10 071	7 348
	Subsidy from State Budget	1 483	1 306	2 176
	Profit/Loss	-237	785	- 169

Out of which: Contract for Services in the Public Interest

		(SKK mil.)		
Railroads operation and management for:		2003	2004	2005
Passenger transport	Costs	3 465	3 378	3 311
	Revenues	1 909	2 093	1 946
	Subsidy from State Budget	819	994	1 403
	Profit/Loss	-737	-291	38
Freight transport	Costs	7 731	7 690	7 857
	Revenues	6 250	6 002	5 720
	Subsidy from State Budget	1 481	1 306	2 197
	Profit/Loss	0	-382	60

RISKS AND UNCERTAINTIES INFLUENCING FINANCIAL RESULTS OF ŽSR

- Solvency of the biggest carriers operating in the ŽSR's network, planned privatisation of freight transport and potential reduction of some types of freight transport services.
- Limited sources for financing the modernisation and development investments enable only slow progress of modernisation, in particular modernisation of corridor tracks.
- Constructions financed from the EU funds, the state of their readiness with respect to funding of the investments upon which the continuous drawing of EU funds and state budget subsidies co-financing is conditioned.
- Risks related to implementation of the measures specified in the Plan for Fulfilment of ŽSR's Consolidation Function.
- Further decrease in transport services due road transport preference.



Water towers are part of many railway stations.



The cog railway meets the TEŽ tracks at the station of Štrbské Pleso.

PROFIT AND LOSS ACCOUNT

(Slovak accounting standards)
Compared to previous years



Railway station in Štrbské Pleso.

	(SKK thousands)		
	2003	2004	2005
Revenues from sales of merchandise	88 596	80 625	78 537
Costs for merchandise sold	75 469	67 811	61 887
Trade margin	13 127	12 814	16 650
Production	10 513 602	10 412 877	10 334 452
Revenues from sale of own products and services	10 411 845	10 260 770	10 067 614
Change in inventory of own products and services	- 1 756	-196	-18
Capitalisation	103 513	152 303	266 856
Production consumption	4 748 152	4 511 608	4 375 278
Value added	5 778 577	5 914 083	5 975 824
Personnel costs	6 042 669	6 236 477	6 244 358
Taxes and fees	34 029	29 571	110 736
Depreciation of intangible and tangible fixed assets	2 813 179	2 953 770	3 166 881
Use and reversal of reserves, provisions to operating revenues and accounting for complex deferred expenses	4 640 908	3 036 080	2 573 617
Creation of reserves, provisions to operating costs and accounting for complex deferred expenses	3 370 130	3 021 440	2 519 374
Other operating revenues	2 861 878	2 780 495	4 113 427
Other operating costs	464 416	339 959	251 785
Operation Profit+/Loss-	556 940	-850 559	369 734
Revenues from sale of securities and contributions	0	0	0
Sold securities and contributions	0	0	0
Financial revenues	1 133 768	763 578	471 546
Financial costs	2 377 373	1 803 492	1 676 305
Use and reversal of reserves and provisions to finance revenues	647 216	1 424 689	1 157 362
Creation of reserves and provisions for financial operations	1 135 448	1 421 480	1 151 677
Profit+/Loss- from financial operations	-1 731 837	-1 036 705	- 1 199 074
Income tax payable from ordinary activity	9 066	0	0
Profit+/Loss- from ordinary activity	-1 183 963	-1 887 264	- 829 340
Extraordinary revenues	798 909	3 435 077	548 805
Extraordinary costs	571 473	660 665	1 820
Profit+/loss- from extraordinary activity	227 436	2 774 412	546 985
PROFIT+/LOSS- FOR CURRENT ACCOUNTING PERIOD	-956 527	887 148	-282 355



(Slovak accounting standards)
Compared to previous years

	SKK thousands		
	31. 12. 2003	31.12.2004	31.12.2005
ASSETS			
Total assets	74 024 367	61 367 524	63 625 634
Fixed assets	56 932 923	57 553 025	59 734 525
Intangible fixed assets	243 009	106 865	66 365
Tangible fixed assets	56 660 429	57 418 157	59 630 846
Financial investments	29 485	28 003	37 314
Current assets	16 897 921	3 695 664	3 802 023
Inventories	637 280	506 157	494 916
Long-term accounts receivable	249 891	31 852	30 457
Short-term accounts receivable	15 217 825	2 609 247	2 420 332
Financial assets	792 925	548 408	856 318
Accruals	193 523	118 835	89 086
LIABILITIES			
Total equity and liabilities	74 024 367	61 367 524	63 625 634
Equity	21 652 631	22 956 095	21 543 009
Registered capital	21 733 242	21 733 215	20 888 758
Capital funds	11 441 358	11 933 091	12 226 328
Funds from profit	856 303	856 303	636 303
Profit+/Loss- from previous periods	-11 421 745	-12 453 662	- 11 926 025
Profit+/Loss- from current year	956 527	887 148	- 282 355
Liabilities	49 868 239	33 494 989	34 267 475
Reserves	1 843 402	1 657 579	1 668 637
Long-term liabilities	3 768 446	3 036 879	564 080
Short-term liabilities	5 059 960	4 063 818	8 605 360
Banks loans and borrowings	39 196 431	24 736 713	23 429 398
Accruals	2 503 497	4 916 440	7 815 150





The tiny station in Strečno has preserved its distinctive architecture.

BALANCE SHEET



Great majority of rail tracks in Slovakia curl throughout ranges of hills.

CASH FLOW STATEMENT

(using the indirect method of cash flow statement)



		SKK thousands		
		2003	2004	2005
A.	Cash flow from operating activities			
Z/S	Profit+/loss- for current year before deducting income tax	-1 174 897	-1 887 264	-829 340
A.1.	Cashless operations A.1.1 to A.1.7	3 806 534	7 155 740	7 580 198
A.2.	Change in state of working capital other than cash and cash equivalents	2 633 491	10 525 002	3 339 592
A*	Operating cash flow except for revenues and expenses that have to be shown separately (sum of P/L+ A. 1. + A. 2.)	5 265 128	15 793 478	10 090 450
A.3	Interest received other than that included in investment activities	60 418	31 243	30 919
A.4	Expenses for interest paid other than that included in financial activities	-2 237 446	-1 729 364	-1 491 052
A**	Operating cash flow before income tax cash flow and extraordinary cash flow (sum of A* + A. 3.+ A 4.)	3 088 100	14 095 357	8 630 317
A.5	Income tax expenses (including expenses for additional levies and income from received overpayments) other than included in investment or financial activities)	-9 066		
A.6	Extraordinary revenues related to operating activity	798 909	3 435 077	548 805
A.7	Extraordinary costs related to operating activity	-571 473	-660 665	-1 820
A***	Net operating cash flow (sum of A**+ A. 5. to A. 7.)	3 306 470	16 869 769	9 177 302
B.	Cash flow from investment activities (IA)			
B.1	Change in state of non-current assets	-3 737 010	-3 308 167	-6 814 394
B.	Bet cash flow from investment activities	-3 737 010	-3 308 167	-6 814 394
C.	Cash flow from financial activities			
C.1	Change in equity	0	0	0
C.2	Change in long-term liabilities	2 602 308	-731 567	-2 472 799
C.3	Change of bank loans and borrowings	-3 684 714	-13 080 840	819 899
C.	Net cash flow from financial activity	-1 082 406	-13 812 407	-1 652 900
D.	Net increase or decrease in cash and cash equivalents A***+B+C	-1 512 946	-250 805	710 008
E.	Balance of cash and cash equivalents at the beginning of the accounting period (as at January 1st)	1 910 035	397 089	146 284
F.	Balance of cash and cash equivalents at the end of the accounting period (as at December 31st)	402 585	134 811	845 718
G.	Foreign exchange differences calculated to cash and cash equivalents as at the date of the financial statement	-5 496	11 473	10 573
H.	Balance of cash and cash equivalents at the end of the accounting period adjusted by the foreign exchange differences calculated as at the date of the financial statement	397 089	146 284	856 292

FINANCIAL INDICATORS



Entrance hall of the railway station in Nové Zámky.

(Slovak accounting standards)

	Measurement unit	2003	2004	2005
Ratio indicators of liquidity				
Immediate liquidity		0,07	0,06	0,07
Current liquidity		1,40	0,36	0,29
Total liquidity		1,46	0,41	0,33
Return on investments indicators				
Costs/revenues	%	104,62	95,96	101,46
Wage demands	%	29,21	28,43	32,39
Debt indicators				
Self-financing index	%	32,54	45,32	45,78
Total indebtedness	%	67,46	54,68	54,22
Debt-to-equity ratio	%	207,36	120,66	118,44
Labour productivity indicators				
from revenues	SKK/employee	935 721	1 045 960	980 424
from performances	Train km /employee	2 236	2 333	2 501
from added value	SKK/employee	261 405	282 030	303 917
Activity indicators -turnover interval				
of inventories	Day	21,64	17,36	17,11
of short-term trade receivables	Day	49,33	78,25	68,68
of total assets	Day	2 511,15	2 105,33	2 199,68



View of Nové Zámky station from the town.

(Slovak accounting standards)

ACQUISITION

OF TANGIBLE AND INTANGIBLE INVESTMENTS

	(SKK thousands)		
	2003	2004	2005
A. Total sources	3 761,3	3 629,4	6 211,6
Subsidies from State Budget	526,6	983,0	0
Equity	1 996,9	1 210,2	1 862,5
Loans, issues	497,5	15,6	655,6
ISPA	530,3	830,2	1 607,9
Co-financing of from State budget	210,0	590,4	1 817,6
European Fund of Regional Development	0	0	201,0
Co-financing from EFRR and State Budget	0	0	67,0
B. Use total	3 761,3	3 629,4	6 211,6
B.1 Tangible fixed assets	3 644,0	3 615,6	6 168,7
Electrification and pre-electrification modifications	146,2	171,3	515,8
Telecommunications and radiofication of tracks	363,7	132,8	158,4
Signalling equip., UAB - Universal Auto-Block System	113,2	99,3	230,8
Exchange stations	73,9	44,4	4,8
Modernisation and reconstruction of tracks	1 992,8	2 377,3	4 389,2
Constructions	861,8	747,8	685,1
SZNR	92,4	42,7	184,6
B.2 Intangible fixed assets	117,3	13,8	42,9



RESEARCH AND DEVELOPMENT

In order to accomplish the research and development-related tasks, the following funds were used in 2005:

Area	Volume (SKK thousands)
Operating processes	
- research costs	1 890
- development costs	7 864
Investment processes	
Capitalised development costs	4 726
Non-capitalised development costs	1 611

Some of the most important tasks accomplished in 2005 are the following:

- Production of equipment for complementary anchoring of fallen overhead line on the overhead line erection van.
- Proposal for processing of signals from acceleration readers placed in the van for measuring the geometric position of rails.
- Equipment for hitting power measuring during crash tests.
- Modernisation and extension of thyristor piercing devices, type series TPJS.
- Modernisation of the measurement system of the van for measuring parameters.
- Equipment for derailment safety tests.
- Local measuring of static resilience of the overhead line.
- Methods for evaluation of slim shunts technical state.
- Check of the energetic load distribution of one-way traction converter station.
- Construction of components for protection of ŽSR high-tension distribution against danger from traction network by a current protector.

Further tasks solved the problems in power engineering, testing, diagnostics and implementation of the EU and Slovak legislation.



Railway stations are one of the factors contributing the unique tone of the country. Such is the case of Sklené pri Handlovej.

FINANCIAL INVESTMENTS

The table below shows the structure of ŽSR's ownership and property shares as of December 31, 2005.

Company	Share in %	Acquisition cost of the property share in SKK thousands
Železničná priemyselná stavebná výroba, a.s. Čaňa	41,06	21 520
Martinská mechatronická, a.s.(Vrútky)	20,00	200
BETAMAT, a.s. Zvolen	10,00	100
HIT RAIL, B.V. (Netherlands)	4,00	4 583
STROJEXPORT, a.s. Praha	0,06	1 200



Railway station in Lubochňa.

HUMAN RESOURCES

The average number of employees employed by ŽSR (headcount) in 2005 was 19,663 persons.

The "ŽSR Business Plan for 2005" anticipated a reduction of the registered number of employees by 485 persons and reduction of the average registered headcount by 634 persons by using the optimisation tools. In reality, the registered number of employees dropped by 1,793 persons and the average registered headcount by 1,307 employees, when compared with 2004.

In terms of the "Adaptation Programme for Selected Schools Graduates", ŽSR employed 70 graduates from secondary schools and universities. In accordance with ŽSR's Collective Contract, the average wage was SKK 18,169,000 thousand.



	2003	2004	2005
ŽSR employees total	22 106	20 970	19 663
Infrastructure	18 074	17 205	16 285
Directorate General	507	406	371
Other internal organisation units	3 525	3 359	3 007





Narrow-gauge lines starting in Trenčianska Teplá end in Trenčianske Teplice.

LABOUR SAFETY

OCCUPATIONAL ACCIDENTS

	2003	2004	2005	Index	
				2004/2003	2005/2004
Fatal injuries	0	0	1	0,000	0,000
Serious injuries	1	1	1	1,000	1,000
Other injuries	125	78	80	0,624	1,026
Occupational accidents total	126	79	82	0,627	1,038

ACCIDENTS IN ŽSR'S NETWORK

	2003	2004*	2005	Index	
				2004/2003	2005/2004
Number of accidents in ŽSR's network	806	514	604	0,64	1,17
out of that:					
Large accidents (A)	8	96	128	12	1,34
of that: A5 category	0	95	112		
Accidents (B)	12	31	25	2,58	0,80
of that : B5 category	0	24	12		
Endangerment and disturbance of traffic (C,D)	784	387	451	0,49	1,16
Accidents caused by ŽSR	128	126	131	0,98	1,03
Accidents caused by ZSSK	408	131	116	0,32	0,88
Accidents caused by third parties	270	251	186	0,93	0,74
Incurred damage (SKK mil.)	18	21,8	36,6	1,21	1,67

*With effect as of January 1, 2004, a new categorisation of accidents was put in place, namely A5 category (fatal or serious injuries caused by moving rolling stock) and B5 category (bodily harm caused by moving rolling stock).



The railway station in Trenčianske Teplice - view from the platform.

IMPACT OF ŽSR OPERATION ON ENVIRONMENT AND EMPLOYMENT RATE



ENVIRONMENT

Measures to eliminate negative effects of ŽSR operation on environment

These measures include in particular:

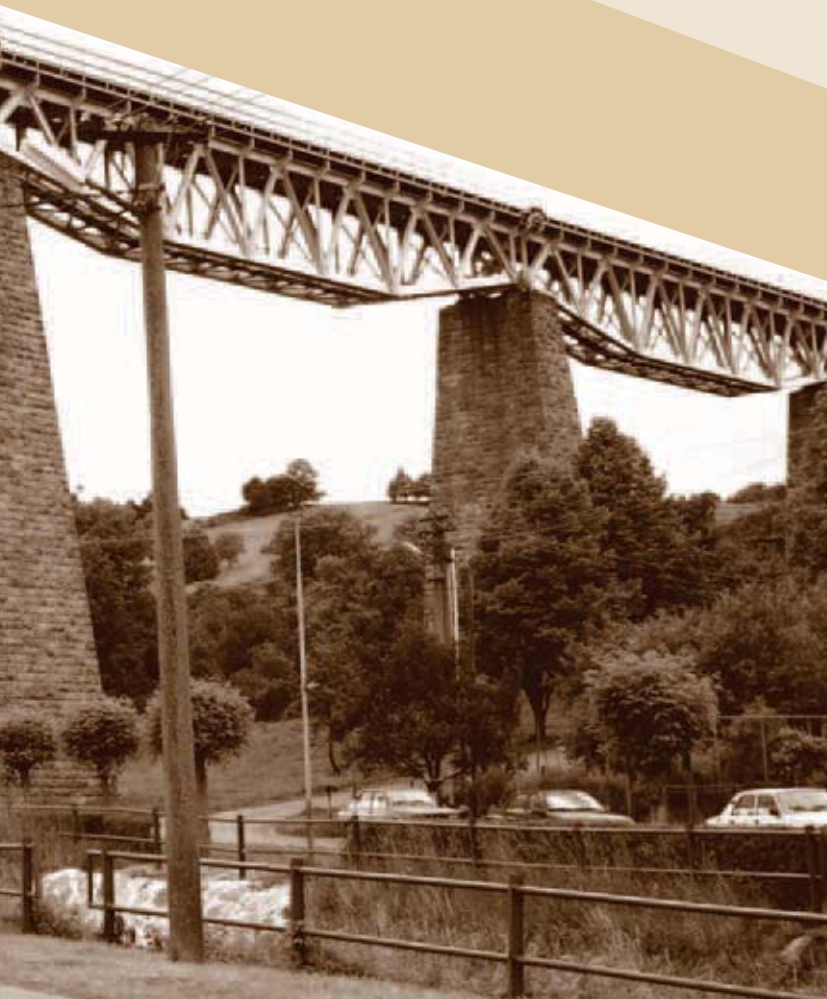
- A functional full-area system for collection of hazardous waste as required by the waste management legislation
- Reconstruction and rehabilitation of the bedrock and subterranean waters in the localities of Čierna nad Tisou and the railway station Brezno within the process of removing old ecological burden, operation of the hydraulic protection of the water source Botany, including required monitoring and protection of the water course Hron;
- Preparation of the Water Management Programme for polychlorinated biphenyls in accordance with the Law No. 233/2001 Coll.L. on waste as later amended;
- Disposal of old ecological burdens (hazardous waste) in the localities of Čierna nad Tisou, Bratislava Východné, Vranov nad Topľou, Matovce in the segment of the track Hronská Dúbrava-Žarnovica, shunt Lúka, Ladce and Rimavská Sobota.

Summary Ecological Accidents

In 2005, two ecological accidents with impact on environment were recorded in the railway station Uľany nad Žitavou where, after a technical defect of the driving vehicle, there was a leakage of the transformer oil into the track underbed (caused by ZSSK) and in the segment of the track Handlová-Sklené near Handlová, there was a leakage of 25 litres of oil from a motor van.

Air Pollution charges

ŽSR has a statutory obligation to pay a charge for pollution the air with medium sources.



Railway viaduct at Hanušovce nad Topľou.

EMPLOYMENT RATE

The long-term trend of reducing the number of ŽSR's employees representing a thousand employees a year has an impact on the employment rate of the Slovak Republic.

The established internal labour market is used as an effective tool for redundant employees care.

Every year, ŽSR employe 70-100 new graduates from selected schools based on the adaptation programme for graduates.

ŽSR, as the biggest employer in the Slovak Republic participates in fulfilling the measures of the National Employment Plan.



IMPORTANT EVENTS AFTER 2005

ORGANISATION UNITS DETACHMENT

Completion of medical facilities transfer into economic lease

In accordance with concluded contracts for providing of services and economic lease, the following medical facility was leased out:

- Railways Health Care Centre Žilina since 1. 2. 2006

NEW MODEL OF ŽSR ECONOMIC MANAGEMENT

- Project Re-Design SAP R/3

The aim of the project is to adjust the system SAP R/3 according to the new version of SAP and the new model of economic management for the purpose of increasing the standard and quality of the information support oriented to achieving the objectives of organisation and economic changes of ŽSR.

DEALING WITH THE IMPACTS OF THE NEW REGULATION SYSTEM PRESCRIBED BY THE AUTHORITY FOR RAILWAY TRANSPORT REGULATION

The Authority for Railway Transport Regulation set out the Regulation Frame for the period 2007 - 2009 supporting the transport policy of the Slovak Republic until 2015 that was approved by the Resolution of the Slovak Government No. 445/2005.

For ŽSR, the Regulation Frame has an important impact, namely reduction of the charge for using the railway transport route for freight transport approximately by 1,2 billion SKK while maintaining the level of the charge for passenger transport, which contributes to harmonisation of the economic conditions between the road and railway transport. Global reduction of the charge will be possible only if the non-investment subsidy for railways operation from the public administration budget is increased.

Due to the above-mentioned, ŽSR must:

- prepare the principles for calculation of the maximum price for using the railway transport route;
- prepare the policy for regulation of the prices for using the railway transport route for the years 2007 - 2009.

STRATEGIC OBJECTIVES

ŽSR operates in the economic and legal environment of a member state of the European Union and its strategic objectives are determined by external and internal trends. The European Commission provides considerable support to the railway sector and the railway enterprises may plan important projects for the period 2003-2013.

Moreover, new opportunities are expected for railway transport in the developing Slovakia's economic sector, particularly in the field of industrial parks and car industry.

Liberalization of the transport market conditions encourages ŽSR to become more flexible and competitive.

The main priorities of ŽSR as the infrastructure manager include:

- Trading activities focused on transport routes trading.
- Process of transport organisation and management.
- Modernisation of the infrastructure to support the ŽSR's commercial orientation and efficiency.
- Ongoing transformation of ŽSR to a market-oriented entity in the conditions of regulated economic competition.

The requirement of providing high-quality railway infrastructure, reduction of travelling times, improvement of transport safety and punctuality and minimization of costs of railway infrastructure and operation expenses can be satisfied only if the following measures are implemented successfully:

- Achievement of full harmonisation between the Slovak and EU legislation in the area of ŽSR's legal status of a railway infrastructure manager and establishment of partner relationship between the state and ŽSR in the area of financing the services in public interest.
- Maximization of ŽSR's commercial potential by flexibility in offering and rendering services, including a complete change of ŽSR's pricing policy.
- Creating conditions for rapid acquiring of precise information about provided services by development and application of information technologies in planning and monitoring its services.
- Finding optimal solutions for trading with electric power, telecommunication services, ŽSR assets and other supplementary services.
- Ensuring interoperability, especially liaison with other railway infrastructure enterprises.
- Ensuring financial sources for ŽSR activities by appropriate combination of revenues, borrowings and EU funds.

With regard to international transport corridors, ŽSR aims to sort out its relations with neighbouring railways administrations and the competent state administration in shifting its activities from border transit stations to existing formation stations.

On the border with Ukraine, ŽSR railroads will be included into the so-called Schengen zone, having its specific regime.



Trains are faithful to the steel tracks out in the open as well as in the twilight of the tunnels.

In light of strategy and forecast for growth in transportation of goods between the east and the west, the importance of the railway connection between the EU member states and non-member states in the east is increasing and the EU pays reasonable attention to this area. The railway line between Vienna and Bratislava has become a project of special importance with regard to the growing potential of passenger and freight transport in the Euro region Centropa and also as a part of the project TEN-T 17 Paris- Strasbourg- Stuttgart-Vienna-Bratislava.

All railway sector organisations in Slovakia must make permanent efforts to achieve that so called transport axes defined in HLG EK lead also through Slovakia in the east-west direction.

In the area of combined transport, the Ministry of Transport, Posts and Telecommunications of the Slovak Republic coordinates the process of preparing studies for new intermodal terminals to be administered by ŽSR.

Transport market liberalisation requires that ŽSR minimise those restrictions on its railway network that lay obstacles to entry of foreign carriers. ŽSR must implement the solutions arising from technical specifications for interoperability and new technologies (ETCS, GSM-R) till set deadlines.

The aim of solving the regional transport issues is support of transport harmonisation in individual regions that may take an important role in the regional transport organisation.

In the area of transport legislation, railway companies face new liberalisation measures. ŽSR keeps following this legislative process and implementing the recommendations in accordance with the national legislation.

Thanks to its membership in important international railway associations such as UIC, CER, OSŽD, EHK-OSN-TER, G4, V4, RNE and others, ŽSR can follow strategic trends. The position of railways in the European transport market is analysed through the EU studies - Trend, Reorient, and UIC - ERIM. The ongoing modernisation of the corridor No.V, the increasing number of carriers operating in the network and continued transformation of ŽSR create preconditions for ŽSR to operate successfully in the given European region.

AUDITOR'S REPORT

(ACCORDING TO SLOVAK ACCOUNTING)

INDEPENDENT AUDITOR'S REPORT

for the Board of Directors

of Železnice Slovenskej republiky, Bratislava

We have audited the accompanying financial statements of Železnice Slovenskej republiky (Railroads of the Slovak Republic; ŽSR) Bratislava for the year 2005, which include the balance sheet prepared as of 31 December 2005, the related income statement for the year then ended, and the notes to the financial statements. These financial statements are the responsibility of the ŽSR Bratislava management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the ŽSR Bratislava management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ŽSR Bratislava as of 31 December 2005 and its financial results for the year then ended in accordance with the Slovak Act on Accounting.

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

1. The accompanying accounting statements have been prepared on the assumption that ŽSR is a going concern. ŽSR's ability to continue its activities and investment program, repay its loans, and fulfill its operating liabilities still depends on financial support from the state and acquisition of additional financial resources.
2. During the audited period, ŽSR contributed assets to the companies Cargo Slovakia, a.s. and Železničná spoločnosť Slovensko a.s. (Resolution of the Government of the Slovak Republic No. 798 of 12 October 2005), which resulted in a reduction of ŽSR's equity by SKK 910,679,000.
3. In accordance with Article 10 and Article 18 of Act No. 596/2003 on State Administration in the Education Sector, the founder of SOUŽ Košice, Trenčín and Bratislava was changed from ŽSR to the Regional School Office as of 1 January 2006.

Bratislava, 12 April 2006

SOLIDITA, spol. s r.o.
Kukučínova 28
831 03 Bratislava
Commercial Register, file No.18497/B
License SKAU 199



Ing. Jozefína Dráčková
responsible auditor
License SKAU 688



Železnice Slovenskej republiky

Independent auditors' report

To the Governing Board of Železnice Slovenskej republiky, Bratislava:

We have audited the accompanying balance sheet of Železnice Slovenskej republiky ("ŽSR" or "the Company") as of 31 December 2005, and the related statement of income, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2005, and the results of its operations, cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards.

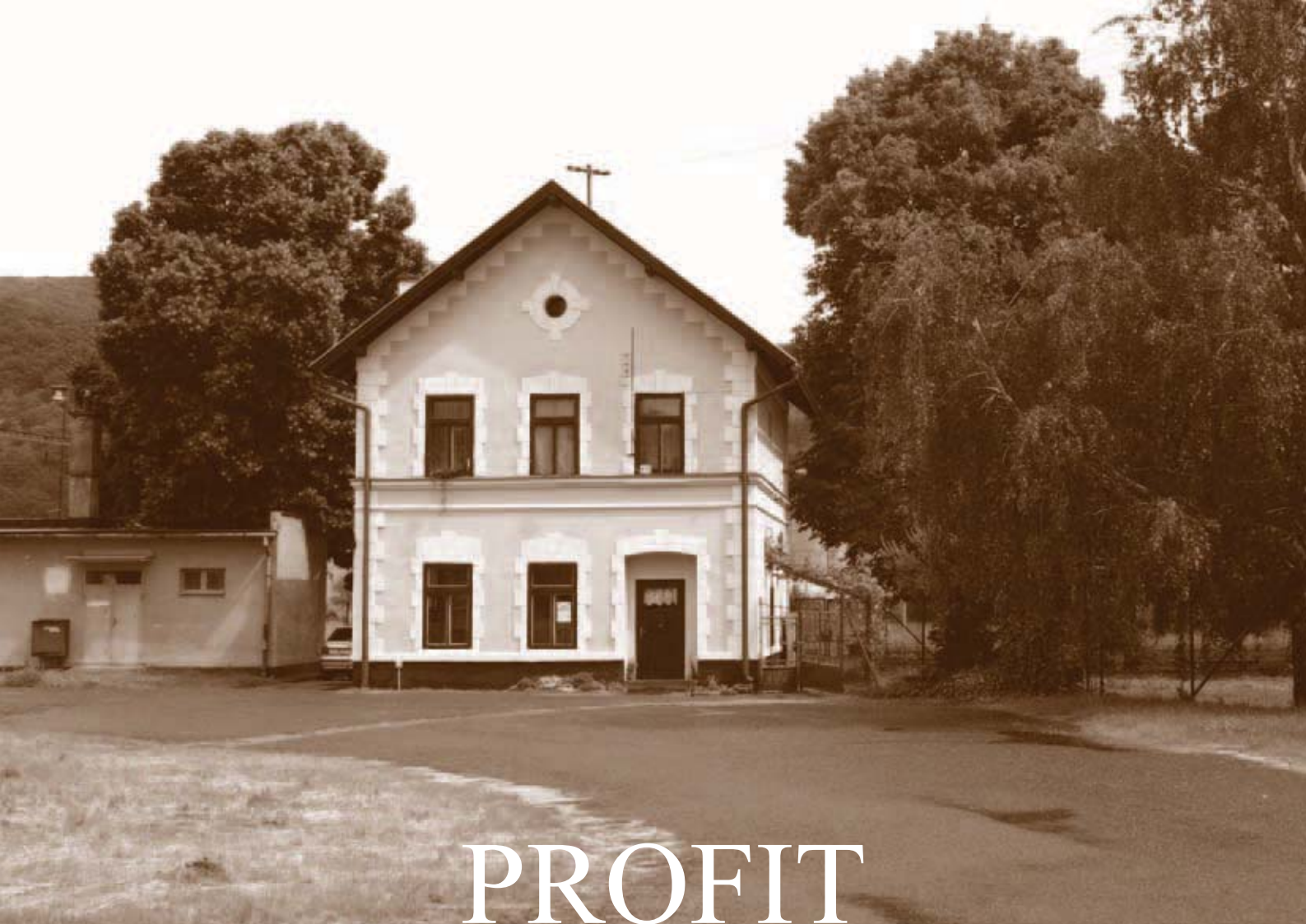
Without qualifying our opinion, we draw attention to Note 1 to the financial statements. The Company reported a net loss of SKK 297 million for the year ended 31 December 2005 (net profit of SKK 751 million for the year ended 31 December 2004). As of that date its current liabilities exceeded its current assets by SKK 6 769 (SKK 6 386 million as of 31 December 2004). The Company's ability to continue as a going concern and to fulfil its investment program and other operating and financial commitments remains dependant upon continued State support in the form of capital and operational subsidies. Further, as disclosed in Note 1 to the financial statements, the Company does not own any of the tangible fixed assets that it administers. These are owned exclusively by the Slovak Republic, which entrusts them to ŽSR.

Solidita, s.r.o.

Solidita, Ltd.

Bratislava, April 12, 2006





PROFIT AND LOSS ACCOUNT

According to international standards for financial reporting as of December 31, 2005 expenses

	(In mil. Sk)	
	2004	2005
Revenues		
Track charges	7 070	6 940
Service rendering	1 538	1 590
State subsidies	2 300	3 600
Debts remitted	2 799	525
Other revenues	153	275
	13 860	12 930
Operating costs and expenses		
Material and consumables	1 030	849
Energy costs	514	529
Repair and maintenance	639	520
Personnel costs	6 229	6 244
Depreciation and amortisation	3 161	3 208
Release of reserves and provisions	-	-
Other operation costs net	521	703
	12 094	12 053
Operation profit	1 766	877
Financial costs net	1 015	1 174
Net profit	751	(297)

For a better understanding of the company's financial position as of December 31, 2005 and the results of its operations and cash flows for the year 2005, the financial information contained herein shall be read in conjunction with the related audited financial statements.



Railway still life.

BALANCE SHEET

According to international standards for financial reporting as of December 31, 2005

	2004	2005
ASSETS		
Non-current assets		
Tangible assets	56 993	59 205
Intangible assets	108	66
Other financial rights	51	37
	57 152	59 308
Current Assets		
Inventories	506	495
Trade and other receivables	2 825	2 540
Cash and cash equivalents	548	856
	3 879	3 891
Total assets	61 031	63 199
EQUITY & LIABILITIES		
Equity		
Registered capital	21 733	20 889
Capital funds	12 153	12 226
Statutory reserve fund	636	636
Accumulated losses	(12 440)	(13 101)
	22 082	20 650
Reserves	1 308	1 233
Non-current liabilities		
Loans and borrowings	22 351	22 508
State subsidies and EU contributions	4 854	7 584
Other long-term liabilities	189	564
	27 394	30 656
Current liabilities		
Short-term part of loans and borrowings	1 958	3 060
Short-term bank loans	2 587	-
Payables and accruals	5 515	7 420
Payables to health and social institutions	187	180
	10 247	10 660
Total equity and liabilities	61 031	63 199

For a better understanding of the company's financial position as of December 31, 2005 and the results of its operations and cash flows for the year then ended, the financial information contained herein shall be read in conjunction with the related audited financial statements.

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