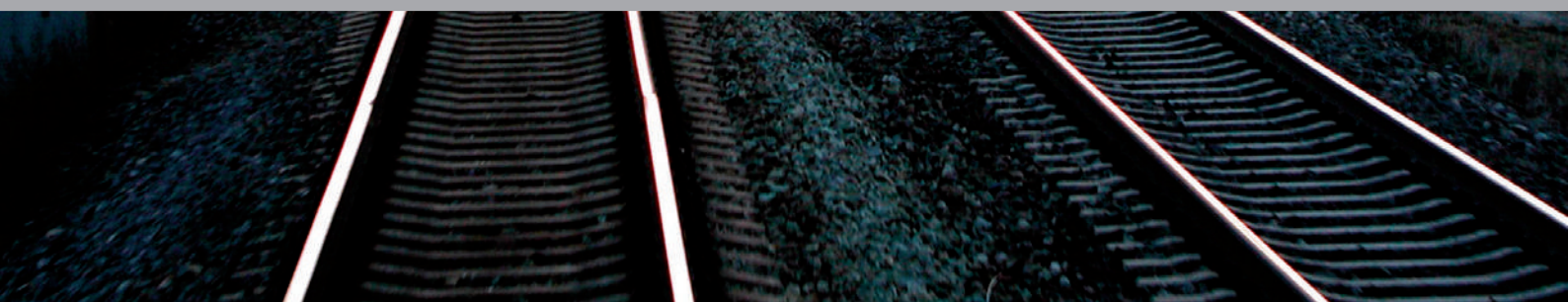
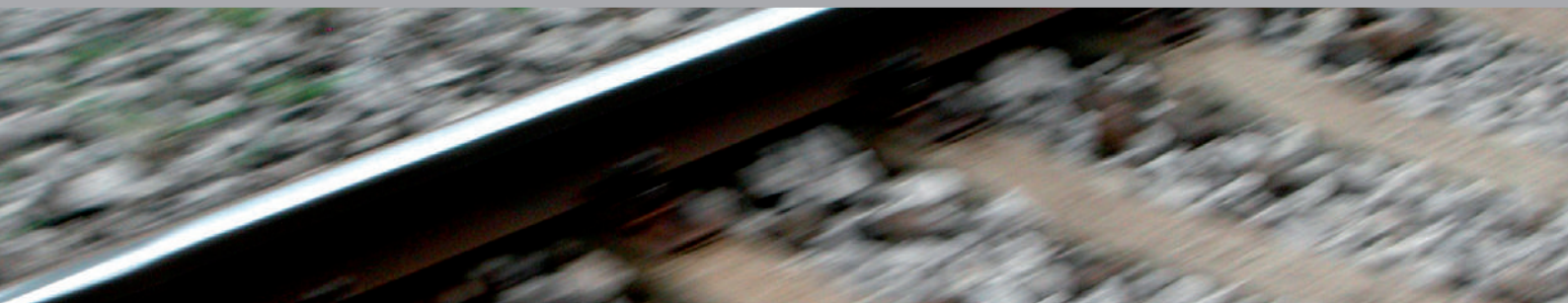
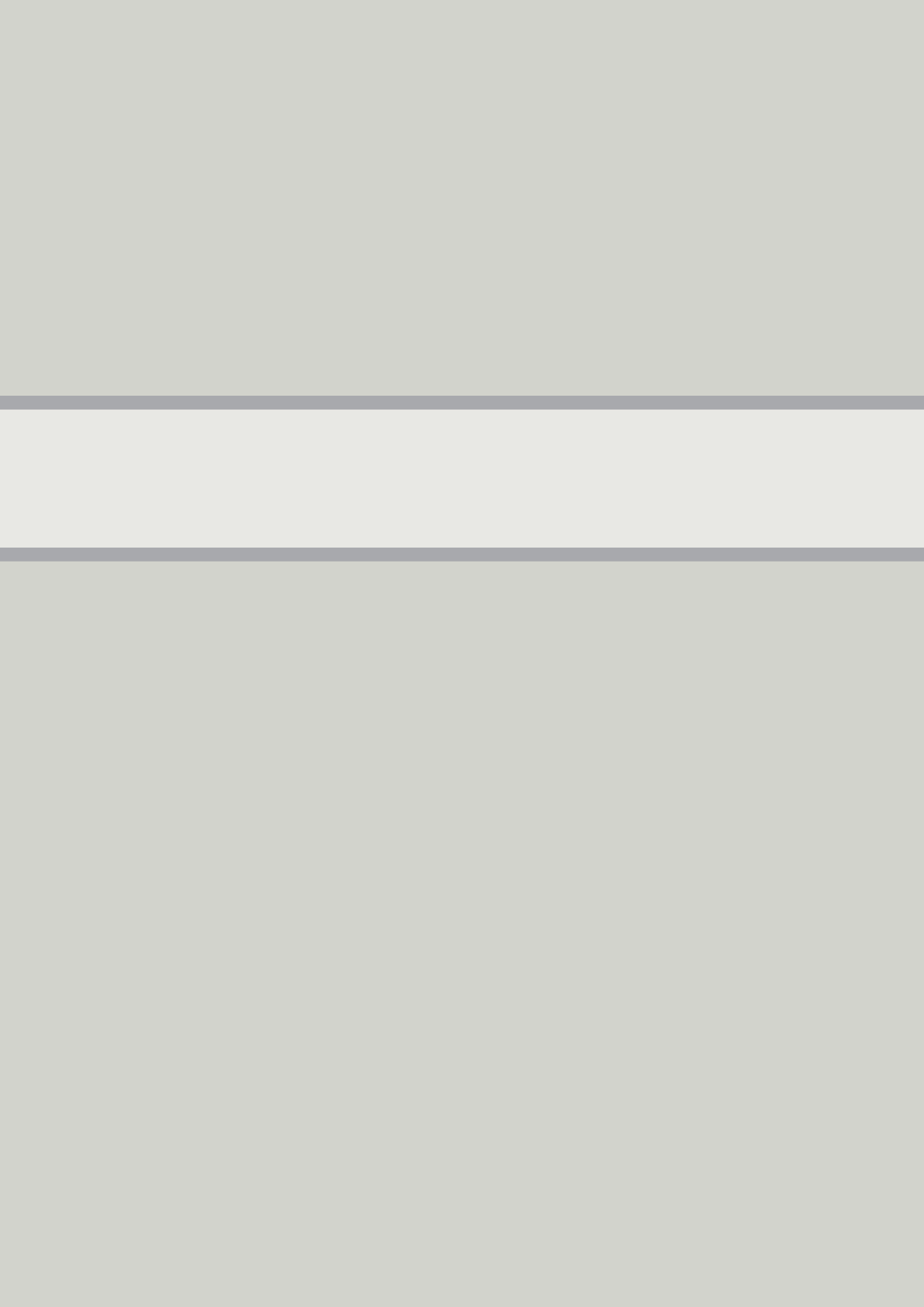




**2007 ANNUAL REPORT**  
RAILWAYS OF THE SLOVAK REPUBLIC





## Annual report of the Railways of the Slovak Republic 2007 / Selected figures

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# Foreword of the Director General



Dear colleagues, business partners,  
dear friends – railwaymen,

I have the honour of submitting to you the Annual Report of the Railways of the Slovak Republic (ŽSR) for 2007, a year which was historically exceptional for ŽSR

and one of the most successful. It is my pleasure to start the report with the facts that bring satisfaction to me and all employees of the company. Behind the success of the year, however, there are a thousand hours of dutiful work pursuing a common goal of bringing railways to a stable position in all aspects. The results of last year prove that we have set out in the right direction.

In the period from January to December 2007 ŽSR generated profit amounting to SKK 18,961,300 thousand, which is a result better by SKK 8,180,112 thousand as compared to the results as on 31 December 2006 and better by SKK 335,395 thousand as compared to the business plan. The results are linked especially to fulfilment of the Consolidation Plan by the State in terms of the Government Resolution no. 1094 of 20 December 2006, providing for the State taking over the loans with state guarantee as of 1 January 2007. The loans that were taken-over to the state debt, amounting to SKK 20,408,925 thousand, were thus credited to the profit of the company. The total costs in the period from January to December 2007 amounted to SKK 16,346,501 thousand which is

a figure higher by SKK 333,126 thousand as compared to the plan. The profit in the period of January – December 2007 totalled SKK 35,307,801 thousand, which presents an increase of SKK 668,521 thousand as compared to the plan. In 2007 ŽSR had an average of 17,982 employees. In accordance with the Collective Agreement of ŽSR the average salary amounted to SKK 20,765.

Several exceptional projects that were implemented or launched in 2007 may be considered successful and well managed. Projects of enormous importance for railways and mainly for citizens include significant progress in upgrading of the European railway corridor in the section between Bratislava and Nové Mesto nad Váhom, which established preconditions for completion of the whole section ending in Piešťany by September and ending in Nové Mesto nad Váhom by December 2008. The reconstruction of the railway station in Prešov, bringing it to a European level and image, was one of the major benefits of the projects implemented in 2007, together with the new visual aspect of a part of Poprad railway station. Its reconstruction shall continue further in 2008. I am glad that we managed to observe the financial framework and to carry out the construction in adequate quality and on time. I am also pleased that the long-term programme of track modernisation and its co-financing from the European funds are well prepared for the planning period of 2008-2013. It gives a promise of sufficient funds for the next planning period in order to achieve a substantial progress in upgrading European railway corridors in Slovakia.



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There is no doubt of a high potential and prospects of railway transport in Slovakia. Rail is a means of transport enabling relatively trouble-free and effective transportation of goods and passengers. Thanks to its geographical position, Slovakia has ideal preconditions for development of railway transport not only within the country itself, but also as part of integrated European railway network in the direction north - south, but still more importantly in the direction of east - west. 2007 brought a huge step forward in this direction during negotiations with eastern partners about the strategic use of Slovakia's location. Slovakia got a big opportunity to sell railway transport products - both rail path and specific products, mainly regarding freight transport. I am of the opinion that investments into Slovak railways are the right way of supporting growth of labour opportunities and development of individual industries.

I would like to put special attention and praise to the cooperation of ŽSR with the University of Žilina and the Slovak University of Technology in Bratislava in 2007. Together we managed to establish our own accredited entity in Slovakia for testing all railway products for all



four railway subsystems. This success in the technical field is yet another proof of the favourable environment in Slovakia for absorbing new ideas, as people think and talk openly and if an idea catches their attention they are willing to get fully engaged.

Let me now express my sincere gratitude to all my colleagues, railwaymen, for their good work, proper cooperation, fulfilment of their tasks and serious attitude to solving arising problems. Railways are a giant that could not exist without the heart of those taking care of its "life". Let me also express a wish that in the year of the 160<sup>th</sup> anniversary of railways in Slovakia we will successfully continue on our track, we will persevere in implementing our plans, goals and cooperation with our partners, and the work for railways will not be only our duty but also our mission.

My best regards  
Ing. Dalibor Zelený  
Director General of ŽSR



## Company profile



ŽSR were established by the Act no. 258/1993 Coll. on Railways of the Slovak Republic, assigning the activities of infrastructure manager and transport operator to the company.

Pursuant to the adopted project of transformation and reconstruction, ŽSR was further transformed as of 1 January 2002 by the Act no. 259/2001 Coll. on Železničná spoločnosť, a.s. and on amendments and supplements to the Act of the National Council of SR no. 258/1993 Coll.

In terms of the said legislation the Railways of the Slovak Republic carry out activities related to management of rail infrastructure, rail traffic management and operability of railway lines.

The scope of business of ŽSR is as follows:

### a) Core business

1. management of railway lines and funicular lines under a specific regulation,

2. activities related to management of railway and funicular lines:

- 2.1. establishment and operation of railway telecommunication and radio networks,
- 2.2. construction, modification and maintenance of railway lines and funicular lines including environmental facilities,
- 2.3. maintenance and repairs of transport vehicles, production, maintenance and repairs of special machinery, equipment and materials including inspections and diagnostics,
- 2.4. provision of services in catering, accommodation and cultural facilities,
- 2.5. property leasing,
- 2.6. automated data processing and transmission,
- 2.7. metrological services and defectoscopy, diagnostics and measuring of physical quantities, geodetic and cartographic activities,
- 2.8. tasks of the chief expert standardisation centre for

<p>railway transport,</p> <p>2.9.manufacturing, assembling, repairs and reconstruction of electric and electronic equipment including inspections and diagnostics,</p> <p>2.10.transshipment of goods, re-tying of rolling stock and change of transport modifications of transported goods during change of rail gauge,</p> <p>2.11.provision of special health-care services for selected professions,</p> <p>3. operation of rail transport for the purposes of:</p> <p>3.1.construction, modification and maintenance of railway and funicular lines,</p> <p>3.2.provision of manipulation services, attendance transport services for railway undertakings.</p>	<p>telecommunication network and provision of public telecommunication services,</p> <p>17. accounting consultants´ services,</p> <p>18. bookkeeping,</p> <p>19. sale of software products – ready-made programmes based on a contract with the author,</p> <p>20. advisory and consultancy services in the field of hardware and software,</p> <p>21. training of young people for their profession and related activities,</p> <p>22. research and development activities regarding construction and management of all lines,</p> <p>23. research and development activities regarding transport operation on all lines,</p>
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<p><b>b) Other business activities as entered in the Commercial Register:</b></p> <p>1. projecting and designing in capital construction,</p> <p>2. engineering activities,</p> <p>3. advertising and promotional activities,</p> <p>4. copying and photographic activities,</p> <p>5. organisation of educational and training activities,</p> <p>6. testing of professional aptitudes of employees of railway and funicular lines managers and employees of railways undertakings operating on rail and special lines, and issuing certificates on professional qualification,</p> <p>7. verification of psychological capability of employees of rail and special lines managers and employees of railway undertakings operating on rail and special lines, and issuing certificates on psychological aptitude,</p> <p>8. psychological services of a non-clinical nature,</p> <p>9. travel agency services,</p> <p>10. medical and preventive health care,</p> <p>11. purchase of goods for purposes of its sale to other sole traders (wholesale),</p> <p>12. purchase of goods for purposes of its sale to the final consumer (retail trade),</p> <p>13. mediating activities,</p> <p>14. heat generation, electricity and heat distribution,</p> <p>15. testing of rolling stock for rail and special infrastructure,</p> <p>16. establishment and management of public</p>	<p>24. maintenance, exhibition and display of historical rolling stock for rail and special lines, including track machinery and special equipment,</p> <p>25. passenger transport operation in nostalgic trains on rail and special lines,</p> <p>26. inspections of selected technical compressive equipment,</p> <p>27. inspection, revision and testing of selected technical gas equipment,</p> <p>28. inspection, revision and testing of machinery parts of lifting equipment,</p> <p>29. electricity supply and distribution,</p> <p>30. activities of a fire protection technician,</p> <p>31. activities of a fire protection specialist,</p> <p>32. automated data processing,</p> <p>33. procurement of services related to administration of apartments and non-housing premises,</p> <p>34. domestic freight road transport,</p> <p>35. domestic irregular bus transport,</p> <p>36. management of public sanitary facilities – toilettes,</p> <p>37. cleaning services,</p> <p>38. rent of road vehicles,</p> <p>39. rent of construction machines and machinery,</p> <p>40. demolition and earthwork,</p> <p>41. handling of goods – reloading of burdens,</p> <p>42. sewerage cleaning,</p> <p>43. pipe laying with machinery,</p> <p>44. scaffold works – assembly and dismantling,</p> <p>45. concreting works,</p> <p>46. painting works.</p>
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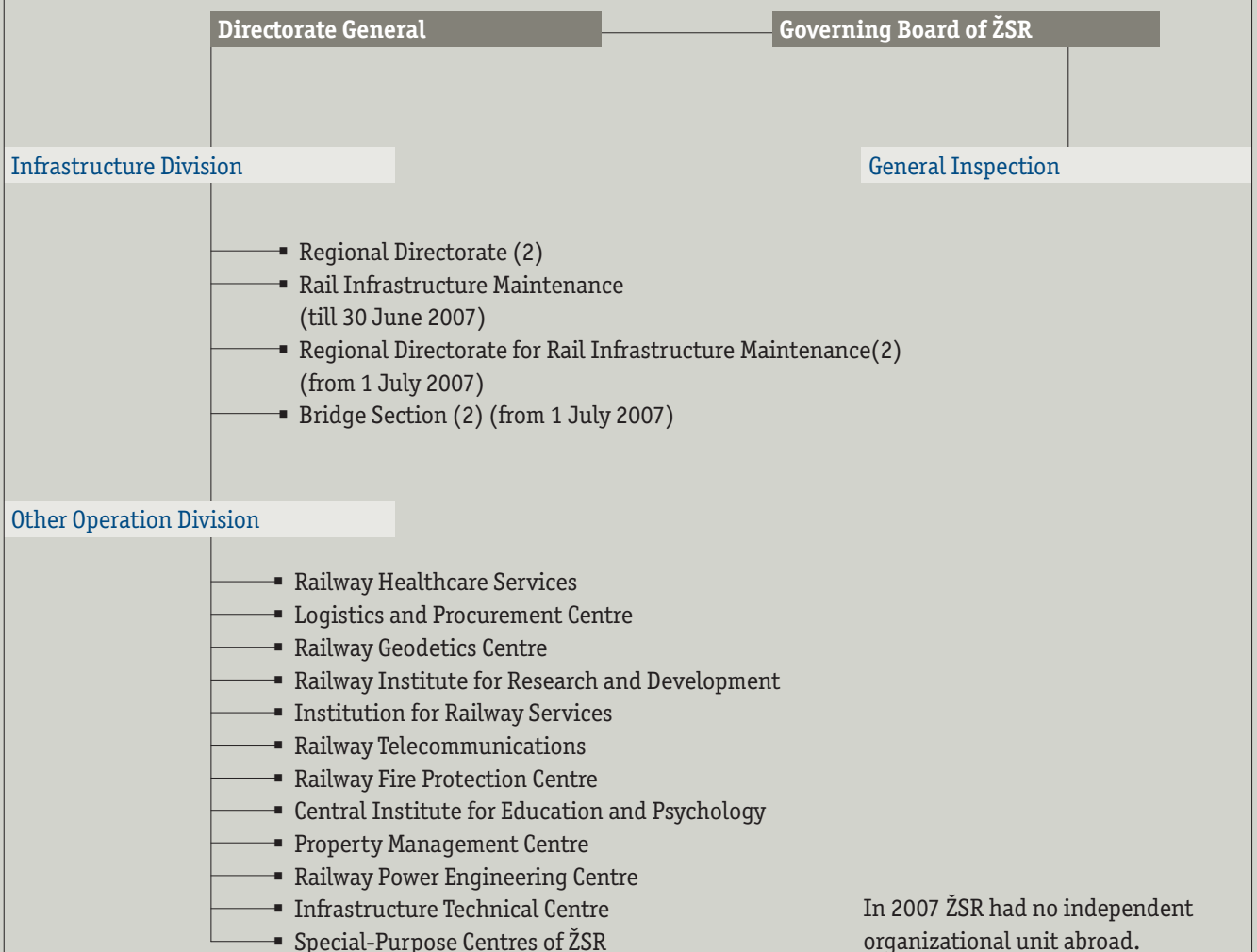


# Organizational structure





## Organizational structure of ŽSR in 2007





# Governing Board



The statutory bodies of ŽSR, in terms of the provisions of Articles 4 and 5 of the Act no. 258/1993 Coll. on ŽSR as amended by the Act of the National Council of the SR no. 152/1997 Coll. and the Act of the National Council of the SR no. 259/2001 Coll., are the Governing Board and the Director General. The Governing Board is the supreme body of ŽSR and comprises nine members.

As of 31 December 2007 the members of the Governing Board of ŽSR were as follows:

**Mgr. Juraj MRAVČÁK**

Chairman of the Governing Board

**Ing. Dušan ŠVANTNER**

Vice-Chairman of the Governing Board

**Ing. Milan CHÚPEK, PhD.**

Member of the Governing Board

**Ing. Pavol GALLO**

Member of the Governing Board

**Ing. Jaroslav MIKLA**

Member of the Governing Board

**Ing. Rudolf PECAR**

Member of the Governing Board

**Mgr. František PETROCI**

Member of the Governing Board

**Ing. Miloslav VADINA**

Member of the Governing Board

**František ZAPARANIK**

Member of the Governing Board



## Board of Directors

# 11



Composition as of 31 December 2007



**Ing. Dalibor ZELENÝ**  
Director General of ŽSR

**Ing. Jozef ANTOŠ**

Deputy Director General for Operation

**Ing. Igor FEDOR**

Deputy Director General for Development and IT

**Ing. Štefan HLINKA**

Deputy Director General for Economy

**Ing. Vladimír JARÚNEK**

Deputy Director General for Human Resources



# Important events in 2007

## **Change of organizational structure**

The organizational unit of Rail Infrastructure Maintenance, Bratislava was modified into 4 new internal units:

- Regional Directorate for Rail Infrastructure Maintenance, Žilina
- Regional Directorate for Rail Infrastructure Maintenance, Zvolen
- Bridge Section, Bratislava
- Bridge Section, Košice

Based on the Resolutions of the Governing Board of ŽSR no. 40/2007 and no. 41/2007 the unit of Rail Infrastructure Maintenance Bratislava was dissolved. The duties that had been carried out previously by this unit, together with its employees were redistributed among newly established and other internal organizational units.

## **Consolidation function of ŽSR**

### **Integration of loans with state guaranteed into the state debt**

Pursuant to the Government Resolution no. 1094/2006 of 20 December 2006 all loans with state guarantee were taken over into the state debt during the first half of 2007, by which the main intentions and measures of the Consolidation Function Plan adopted by the Government of SR in 2003 were fulfilled.

## **New model of ŽSR economic management**

### **Redesign SAP R/3 Project**

In March 2007 the Redesign SAP R/3 Project was carried out aiming at transition of the old 4.5 version of SAP R/3 system to a new supported and modern 5.00 ECC version. The transfer to a higher version enabled to establish a basis for further development of functions as regards company process management, but it especially enabled to integrate information systems within ŽSR, and cooperate and exchange data with business partners of ŽSR at a higher technological level. After completion of Redesign Project, the specification process within the set-up systems continued.



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## Rail infrastructure modernisation

In 2007 investments totalling SKK 9,769.9 million focused mainly on rail infrastructure modernisation. The investments were financed from the EU resources (SKK 2,457.3 million), from co-financing budget complementing the EU funds (SKK 1,804.8 million), from bank loans (SKK 2,133.7 million), from state subsidies allocated from the state budget (SKK 1,035.7 million) and from own resources (SKK 2,338.4 million). The investment priority of 2007 was to complete Electrification of the line between Zvolen and Banská Bystrica, which was one of the major transport investments of Slovakia amounting to more than SKK 1.099 billion, 75 % of which came from the EU structural funds and 25% from the state budget. The newly constructed track section enhanced competitiveness of rail as compared to road in both freight and passenger transport. It is less demanding on the environment, which decreases negative impacts of transport. Another substantial benefit of the line is a more effective use of rail infrastructure capacity, and faster, safer and more reliable passenger and freight transport.

Other priorities included continued modernisation of rail infrastructure and railway stations, mainly:

- Modernisation of the rail line between Bratislava Rača and Trnava
- Modernisation of the rail line between Trnava and Nové Mesto nad Váhom
- Modernisation of the rail line between Nové Mesto nad Váhom and Púchov
- Modernisation of the marshalling yard in Teplica pri Žiline
- Modernisation of the rail line between Žilina and Krásno nad Kysucou
- Platform construction in the railway station of Poprad-Tatry
- Platform construction in the railway station of Prešov
- Railway connection of the EU corridors in Bratislava by a direct inter-connection of the airport to the rail network (TEN-T project).



# Progress report

## Infrastructure

The Railways of the Slovak Republic manage and operate nationwide and regional railway lines and installations as follows.

Parameter/ Year	Index				
	2005	2006	2007	2006/2005	2007/2006
<b>RAILWAY LINES AND STRUCTURES</b>					
<b>Construction length of managed lines (in km)</b>	<b>3,658</b>	<b>3,658</b>	<b>3,658</b>	<b>1.000</b>	<b>1.000</b>
Of which:					
<b>Total construction length of managed lines (in km)*</b>	<b>3,658</b>	<b>3,658</b>	<b>3,629</b>	<b>1.000</b>	<b>0.992</b>
Of which:					
Single-track lines	2,639	2,639	2,610	1.000	0.989
Double and multiple-track lines	1,019	1,019	1,019	1.000	1.000
Of which: Broad-gauge lines	99	99	99	1.000	1.000
Normal-gauge lines	3,509	3,509	3,480	1.000	0.992
Narrow-gauge lines	50	50	50	1.000	1.000
Of which: Non-electrified	2,102	2,081	2,051	0.990	0.986
Electrified	1,556	1,577	1,578	1.013	1.001
of which:					
Electrified AC 25000 V/50 Hz	737	758	759	1.028	1.001
DC 3000 V (others)	819	819	819	1.000	1.000
<b>Total construction length of tracks (km)</b>	<b>6,878</b>	<b>6,867</b>	<b>6,831</b>	<b>0.998</b>	<b>0.995</b>
Of which:					
- main tracks	4,674	4,674	4,645	1.000	0.994
- other station tracks	2,204	2,193	2,186	0.995	0.997
<b>Number of switches</b>	<b>8,759</b>	<b>8,717</b>	<b>8,657</b>	<b>0.995</b>	<b>0.993</b>
Number of switch units	9,758	9,710	9,627	0.995	0.991
<b>Number of bridges</b>	<b>2,283</b>	<b>2,287</b>	<b>2,282</b>	<b>1.002</b>	<b>0.998</b>
- steel	504	493	456	0.978	0.925
- solid	1,779	1,794	1,826	1.008	1.018
<b>Total length of bridges (m)</b>	<b>46,762</b>	<b>46,240</b>	<b>50,282</b>	<b>0.989</b>	<b>1.087</b>
<b>Number of tunnels</b>	<b>76</b>	<b>76</b>	<b>75</b>	<b>1.000</b>	<b>0.987</b>
- single-track	69	69	68	1.000	0.986
- double-track	7	7	7	1.000	1.000
<b>Total length of tunnels (m)</b>	<b>43,375</b>	<b>43,389</b>	<b>43,229</b>	<b>1.000</b>	<b>0.996</b>
<b>Railway level crossings</b>	<b>2,328</b>	<b>2,322</b>	<b>2,307</b>	<b>0.997</b>	<b>0.994</b>



# 15

Parameter/ Year	2005	2006	2007	Index	
				2006/2005	2007/2006
<b>SAFETY INSTALLATIONS</b>					
<i>Track safety installations</i>					
<b>Automatic block (km)</b>	<b>690</b>	<b>564</b>	<b>564</b>	<b>0.817</b>	<b>1.000</b>
- one directional	280	129	129	0.461	1.000
- bi-directional	410	435	435	1.061	1.000
<b>Automatic block system (km)</b>	<b>154</b>	<b>411</b>	<b>411</b>	<b>2.669</b>	<b>1.000</b>
<b>Semi -automatic block (km)</b>	<b>1,115</b>	<b>736</b>	<b>736</b>	<b>0.660</b>	<b>1.000</b>
- relay	805	593	593	0.737	1.000
- block	310	143	143	0.461	1.000
<b>Lines with telephone communication system</b>	<b>1,978</b>	<b>1,697</b>	<b>1,533</b>	<b>0.858</b>	<b>0.903</b>
<i>Station safety installations</i>					
Operating posts with mechanic interlocking	234	234	234	1.000	1.000
Operating posts with electro-mechanic interlocking	101	101	96	1.000	0.950
Operating posts with relay interlocking	130	129	123	0.992	0.953
Operating posts with hybrid interlocking	305	25	25	0.082	1.000
Operating posts with electronic interlocking	3	8	17	2.667	2.125
Interlocking with remote control (operated by a dispatcher) (km)	175	95	259	0.543	2.726
<i>Train safety installations</i>					
Tracks with info. transmission to train installation (km)	554	564	564	1.018	1.000
<i>Level-crossing safety installations</i>					
Unprotected level crossings (no.)	1,319	1,062	1,222	0.805	1.151
Protected level crossings (no.)	1,160	987	1,085	0.851	1.099
- mechanical barriers	162	91	123	0.562	1.352
- safety installations with light signalling	998	896	962	0.898	1.074
<i>Hump safety installations</i>					
Rail brakes (no.)	94	93	93	0.989	1.000
Mechanised humps (no.)	8	8	8	1.000	1.000
Semi-automated humps (no.)	0	0	0	0.000	1.000
Automated humps (no.)	1	1	1	1.000	1.000
Compressor station (no.)					
- packaged three-dimensional (mobile)	9	9	9	1.000	1.000
- packaged spiral (mobile)	2	2	2	1.000	1.000
- stationary (hall)	12	12	12	1.000	1.000

\*The Decision of the MTPT no. 105411/2007-SŽDD of 3 May 2007 cancelled the line of Rimavská Sobota – Poltár with the total length of 29.522 km, single-track, non-electrified (resulting in modification of construction length of lines, tracks, bridges, tunnels and level crossings).



## Services of railway undertakings

In accordance with the Contract on Rail Infrastructure Management concluded between the Railways of the Slovak Republic and the Ministry of Transport, Posts and Telecommunications of the SR, as well as with contracts on transport operation by rail with railway undertakings, ŽSR provided for the operation of passenger and freight transport by rail.

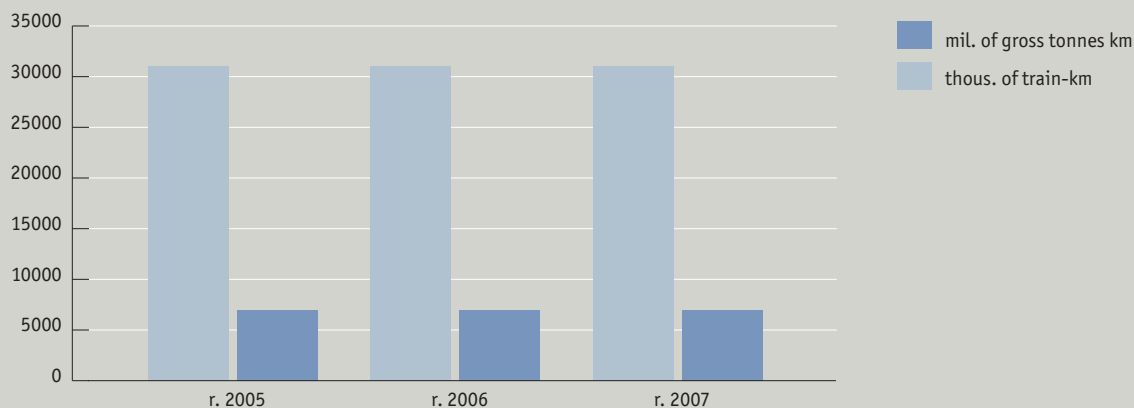
### PASSENGER TRANSPORT

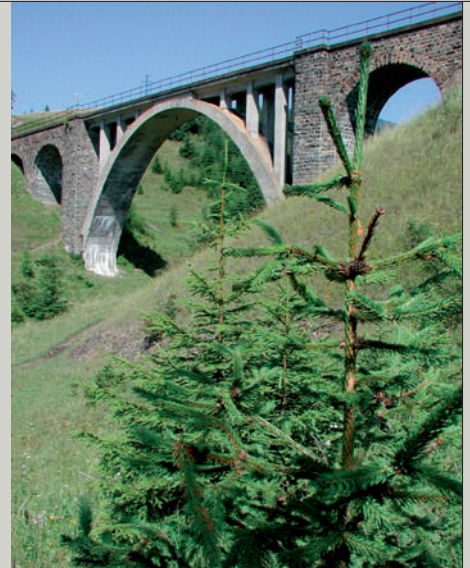
Volume /period	2005	2006	2007
Total (thousand train-km)	31,737	31,977	31,958
Total (million gross tonnes-km)	8,294	8,321	8,158

### Passenger transport in 2007 by train type

Train type:		thousand gross tonnes-km	train-km
Eurocity, Intercity	(EC, IC)	979,266	2,013,933
Supercity	(SC)	1,539	3,266
Express train	(Ex)	114,755	333,672
Regional Express	(REx)	2,161	10,357
Euro Regional	(ER)	14,601	61,400
Fast train	(R)	3,116,742	6,586,996
Local express train	(Zr)	375,540	1,333,079
Slow train	(Os)	3,484,560	21,123,072
Extra trains	(Mimos)	665	1,879
Train set	(Sv)	53,031	210,694
Special train	(OsOs)	5,693	13,895
Train set (recorded as FT)	(NDSv)	2,455	8,199
Train set – track closures	(SV closure)	7,301	30,554
Diesel light engine trains	(MRv)	0	322
Light engine trains, trials	(Rv, Rvsk)	0	220,595
Light engine trains during track closures	(RvvyL)	0	5,661

### Passenger transport





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**FREIGHT TRANSPORT**

Volume /period	2005	2006	2007
Total (thousand train-km)	17,445	17,959	17,936
Total (million gross tonnes-km)	20,905	22,326	22,149

**Freight transport in 2007 by train type**

Train type:		thousand gross tonnes-km	train-km
Inter marshalling yard train	(Pn)	19,431,643	12,355,724
Short distance train	(Mn)	849,916	2,036,549
Special freight trains	(OsND)	194	516
Diesel light engine train	(MRv)	0	0
Freight express	(Nex)	736,732	740,368
Broad-gauge trains	(UZ)	187,810	106,444
Siding trains	(Vlec)	3,328	16,595
Light engine trains, trials	(Rv, Rvsk)	304,305	2,011,997

**Freight transport**



## Passenger train timetable fulfilment

Train type:	Actual figures			Index	
	2005	2006	2007	2006/2005	2007/2006
International fast trains	92.07	87.42	85.72	0.949	0.981
Domestic fast trains	92.13	82.53	81.70	0.896	0.999
Slow trains	97.33	94.89	94.36	0.975	0.994
<b>Total passenger transport</b>	<b>96.89</b>	<b>94.48</b>	<b>94.02</b>	<b>0.975</b>	<b>0.995</b>

## Revenues from the use of rail infrastructure

As of 1 January 2002 the main product of ŽSR has been sale of train paths on the managed rail infrastructure. Charges for train path allocation are subject to state regulation. In 2007 the revenues of ŽSR from the use of rail infrastructure amounted to SKK 6,759,573 thousand, which accounts for 67.73% of total revenues from own business and products, and 19.14% of total revenues.

In 2007, 25 railway undertakings provided their transport services on rail infrastructure. Two undertakings delivered passenger services and 23 undertakings operated freight transport services.

Revenues /period	2005	2006	2007
<b>Total, of which:</b>	<b>6,940,703</b>	<b>6,729,686</b>	<b>6,759,573</b>
Železničná spoločnosť Slovensko, a.s.	1,727,287	1,561,000	1,767,581
Železničná spoločnosť Cargo Slovakia, a.s.	5,122,331	4,979,719	4,808,607
<b>Other carriers, of which:</b>	<b>91,085</b>	<b>188,967</b>	<b>183,385</b>
Passenger transport	2,711	45	35
Freight transport	88,373	188,922	183,350



## Business results of ŽSR

(according to Slovak accounting standards)

The year 2007 may be considered as a successful year for ŽSR. The process related to fulfilment of the consolidation function was completed by final implementation of measures focusing on past debt elimination and settling the loans with state guarantee. In 2007 the state debt took over the balance of loans with state guarantee in the amount of SKK 20,408,925 thousand (the principal in the amount of SKK 19,813,219 thousand, with the interest amounting to SKK 460,773 thousand and exchange differences amounting to SKK 134,933 thousand). The transfer was reflected in the overall business result.

The Ministry of Transport, Posts and Telecommunications and ŽSR concluded a Contract on Rail Infrastructure Management for 2007. The Contract sets forth a fixed financial framework of the state compensation in the amount of SKK 3,600 million, in order to ensure operation, servicing and maintenance of nationwide and regional railway lines.

Pursuant to the book keeping records in 2007 ŽSR achieved total revenues in the amount of SKK 35,307,801 thousand, of which the revenues from own business and goods totalled SKK 9,980,061 thousand with the costs accounting for SKK 16,346,501 thousand, of which the production consumption reached SKK 5,299,205 thousand and personnel costs reached the amount of SKK 6,540,456 thousand. The business of ŽSR resulted with

profit amounting to SKK 18,961,300 thousand, of which the loss from core business (operation and maintenance of nationwide and regional lines) reached SKK 1,504,207 thousand and profit from other activities reached SKK 20,465,507 thousand. The high profit is linked to fulfilment of the consolidation function of ŽSR by the State. Should we not consider the effects of costs and revenues related to the consolidation function, ŽSR would show loss amounting to SKK 1,446,521 thousand.

As compared to the plan for 2007, the company had a better business result by SKK 335,395 thousand, with costs higher by SKK 333,126 thousand and also revenues higher by SKK 668,521 thousand as expected in the plan.

The business result comprises:

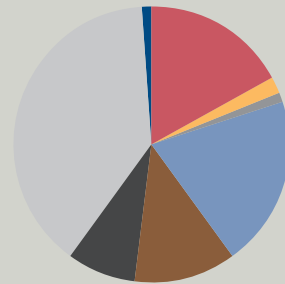
- profit of SKK 18,486,361 thousand from operating activities,
- profit of SKK 475,133 thousand from financial activities,
- loss of SKK 194 thousand from extraordinary activities.

	(million SKK)		
	2005	2006	2007
Costs	19,560	19,774	16,347
Revenues	19,278	30,555	35,308
<b>Profit/Loss</b>	<b>-282</b>	<b>10,781</b>	<b>18,961</b>



The costs were influenced mainly by:

- costs on used purchases in the amount of SKK 3,340,461 thousand,
- services totalling SKK 1,962,224 thousand,
- personnel costs amounting to SKK 6,540,456 thousand, of which salaries amounted to SKK 4,489,180 thousand,
- other costs related to business activity in the amount of SKK 1,293,887 thousand,
- write-offs, reserves and adjusting entries to long-term tangible and intangible assets in the amount of SKK 2,805,315 thousand,
- financial costs in 2007 amounting to SKK 323,013 thousand,



Taxes and fees, total 0,50%	Consumed purchases 20,44%
Total personnel costs 40,01%	Total extraordinary costs 0,00%
Other operating costs 7,92%	Fin. costs, total 1,98%
Total services 12,00%	Depreciation, reserves and adjusting entries 17,16%

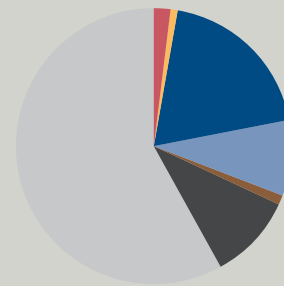


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The revenues were influenced mainly by:

- revenues from charges for the use of rail infrastructure in the amount of SKK 6,759,573 thousand,
- revenues from sale of traction electric energy in the amount of SKK 2,026,415 thousand,
- other revenues from business activities in the amount of SKK 24,082,165 thousand, of which compensation from the state budget for loss resulting from the Contract on Rail Infrastructure Management amounting to SKK 3,600,000 thousand, and revenues related to fulfilment of consolidation function in the amount of SKK 19,813,219 thousand,
- financial revenues in the amount of SKK 798,146 thousand, revenues related to fulfilment of consolidation function in the amount of SKK 599,289, thousand.

When considering all activities carried out by the company, costs and revenues of ŽSR were substantially affected by the core business consisting of management, operation and maintenance of nationwide and regional railway lines ensuring passenger and freight transport. The scope, quality and conditions for core business are set forth in the Contract on Rail Infrastructure Management for the given year.



<span style="display: inline-block; width: 15px; height: 15px; background-color: #d3d3d3; border: 1px solid black;"></span> Other operating revenues 58,50%	<span style="display: inline-block; width: 15px; height: 15px; background-color: #0056b3; border: 1px solid black;"></span> Charges for the use of infrastructure 19,14%
<span style="display: inline-block; width: 15px; height: 15px; background-color: #333; border: 1px solid black;"></span> State budget compensation 10,20%	<span style="display: inline-block; width: 15px; height: 15px; background-color: #ffcc00; border: 1px solid black;"></span> Total extraordinary revenues 0,00%
<span style="display: inline-block; width: 15px; height: 15px; background-color: #8b4513; border: 1px solid black;"></span> Total capitalisation 0,78%	<span style="display: inline-block; width: 15px; height: 15px; background-color: #e91e63; border: 1px solid black;"></span> Total financial revenues 2,26%
<span style="display: inline-block; width: 15px; height: 15px; background-color: #6495ed; border: 1px solid black;"></span> Other revenues for own performance 9,12%	

The total loss from the core business in the amount of SKK 1,504,207 thousand was affected by the loss from freight line operation amounting to SKK 1,023,604 thousand and the loss from passenger line operation amounting to SKK 480,603, thousand.



## Core business

		(million SKK)		
<b>Operation and maintenance of lines, total:</b>		<b>2005</b>	<b>2006</b>	<b>2007</b>
	Costs	13,881	12,261	12,639
	Revenues	10,001	7,991	7,534
	State compensation	3,600	3,452	3,600
	Profit/Loss	-280	-818	-1,504

Of which:

		(million SKK)		
<b>Operation and maintenance of lines for:</b>		<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>Passenger transport</b>	Costs	4,188	3,692	3,787
	Revenues	2,653	1,941	2,000
	State compensation	1,424	1,471	1,306
	Profit/Loss	- 111	- 280	-481
<b>Freight transport</b>	Costs	9,693	8,569	8,852
	Revenues	7,348	6,050	5,534
	State compensation	2,176	1,981	2,294
	Profit/Loss	- 169	- 538	-1,024

of which: Contract on Rail Infrastructure Management

		(million SKK)		
<b>Operation and maintenance of lines, total:</b>		<b>2005</b>	<b>2006</b>	<b>2007</b>
	Costs	11,168	10,906	11,318
	Revenues	7,666	7,267	7,242
	State compensation	3,600	3,452	3,600
	Profit/Loss	98	-187	-476

Of which:

		(million SKK)		
<b>Operation and maintenance of lines for:</b>		<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>Passenger transport</b>	Costs	3,311	3,284	3,390
	Revenues	1,946	1,726	1,913
	State compensation	1,403	1,471	1,305
	Profit/Loss	38	- 87	-172
<b>Freight transport</b>	Costs	7,857	7,622	7,928
	Revenues	5,720	5,541	5,329
	State compensation	2,197	1,981	2,295
	Profit/Loss	60	- 100	-304



### Risks and uncertainties influencing the business result of ŽSR

- Solvency of the major transport operators on ŽSR network, financial conditions of ZSSK CARGO.
- Unbalanced arrangement of resources set forth in the Contract on Rail Infrastructure Management due to insufficient volume of funds in the public administration budget, and due to the set manner of mutual settlement of non-investment subsidy of the owner and manager of infrastructure.
- Limited resources to fund modernisation and development investments resulting in slow progress of modernisation, especially as regards corridors.
- The lack of financial means in the state budget to co-finance modernisation and development projects funded from the EU funds was solved in the form of a new investment loan for ŽSR in 2008 with assumed drawing of funds also in 2009.
- Insufficient use of the available rail path capacity due to low demand by undertakings with regard to preferences for road transport.



## Profit and loss statement

(Slovak accounting standards) Comparison with previous years

	(thousand SKK)		
	2005	2006	2007
Revenues from sold goods	78,537	6,041	5,396
Costs on goods sold	61,887	4,168	3,480
<b>Trade margin</b>	<b>16,650</b>	<b>1,873</b>	<b>1,916</b>
<b>Production</b>	<b>10,334,452</b>	<b>10,018,153</b>	<b>10,249,977</b>
Revenues from sale of own products and services	10,067,614	9,787,656	9,974,665
Change in inventory of finished goods and work in progress	-18	326	-38
Capitalisation	266,856	230,171	275,350
<b>Production consumption</b>	<b>4,375,278</b>	<b>4,711,388</b>	<b>5,299,205</b>
<b>Added value</b>	<b>5,975,824</b>	<b>5,308,638</b>	<b>4,952,688</b>
Personnel costs	6,244,358	6,080,894	6,540,456
Taxes and fees	110,736	68,874	80,951
Depreciation of long-term tangible and intangible assets	3,166,881	2,978,635	2,805,315
Use and release of reserves, adjusting entries to operating revenues and reporting of deferred expenses*	2,573,617	0	0
Creation of reserves, adjusting entries to operating costs and deferred operating expenses*	2,519,374	0	0
Other operating revenues	4,113,427	11,948,846	24,254,282
Other operating costs	251,785	619,151	1,293,887
<b>Operating profit/loss</b>	<b>369,734</b>	<b>7,509,930</b>	<b>18,486,361</b>
Revenues from sale of securities and ownership interests	0	0	0
Sold securities and ownership interests	0	0	0
Financial revenues	471,546	6,425,668	798,146
Financial costs	1,676,305	3,154,531	323,013
Use and release of reserves and adjusting entries to revenues from financial activities*	1,157,362	0	0
Creation of reserves and adjusting entries to financial activities *	1,151,677	0	0
<b>Profit/loss from financial activities</b>	<b>- 1,199,074</b>	<b>3,271,137</b>	<b>475,133</b>
Income tax payable from ordinary activity	0	0	0
<b>Profit/loss from ordinary activities</b>	<b>- 829,340</b>	<b>10,781,067</b>	<b>18,961,494</b>
Extraordinary revenues	548,805	121	0
Extraordinary costs	1,820	0	194
Extraordinary profit/loss	546,985	121	-194
<b>PROFIT/LOSS FOR THE CURRENT ACCOUNTING PERIOD</b>	<b>- 282,355</b>	<b>10,781,188</b>	<b>18,961,300</b>

\*in terms of the change in accounting methods, they are part of adjusting entries



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## Balance sheet

(Slovak accounting standards) Comparison with previous years

	(thousand SKK)		
	31 December 2005	31 December 2006	31 December 2007
<b>ASSETS:</b>			
<b>Total assets</b>	<b>63,625,634</b>	<b>68,885,997</b>	<b>75,909,990</b>
<b>Fixed assets</b>	<b>59,734,525</b>	<b>65,642,488</b>	<b>72,630,725</b>
Long-term intangible assets	66,365	104,143	137,225
Long-term tangible assets	59,630,846	65,471,093	72,435,739
Long-term financial assets	37,314	67,252	57,761
<b>Current assets</b>	<b>3,802,023</b>	<b>3,181,383</b>	<b>3,196,355</b>
Inventories	494,916	615,859	703,127
Long-term receivables	30,457	29,217	47,648
Short-term receivables	2,420,332	1,452,905	2,061,507
Financial assets	856,318	1,083,402	384,073
<b>Accruals and deferrals</b>	<b>89,086</b>	<b>62,126</b>	<b>82,910</b>
<b>LIABILITIES</b>			
<b>Total equity and liabilities</b>	<b>63,625,634</b>	<b>68,885,997</b>	<b>75,909,990</b>
<b>Equity</b>	<b>21,543,009</b>	<b>28,144,123</b>	<b>46,435,732</b>
Paid in capital	20,888,758	22,905,924	22,905,924
Capital funds	12,226,328	12,479,451	12,686,145
Funds from profit	636,303	636,303	636,303
Profit/loss from previous periods	- 11,926,025	-18,658,743	-8,753,940
Profit/loss for the current period	- 282,355	10,781,188	18,961,300
<b>Liabilities</b>	<b>34,267,475</b>	<b>27,918,564</b>	<b>10,878,429</b>
Reserves	1,668,637	2,050,180	3,749,720
Long-term liabilities	564,080	497,477	491,527
Short-term liabilities	8,605,360	3,847,195	3,846,896
Bank loans and borrowings	23,429,398	21,523,712	2,790,286
<b>Accruals and deferrals</b>	<b>7,815,150</b>	<b>12,823,310</b>	<b>18,595,829</b>



## Cash flow statement

(using indirect method of cash flow reporting)

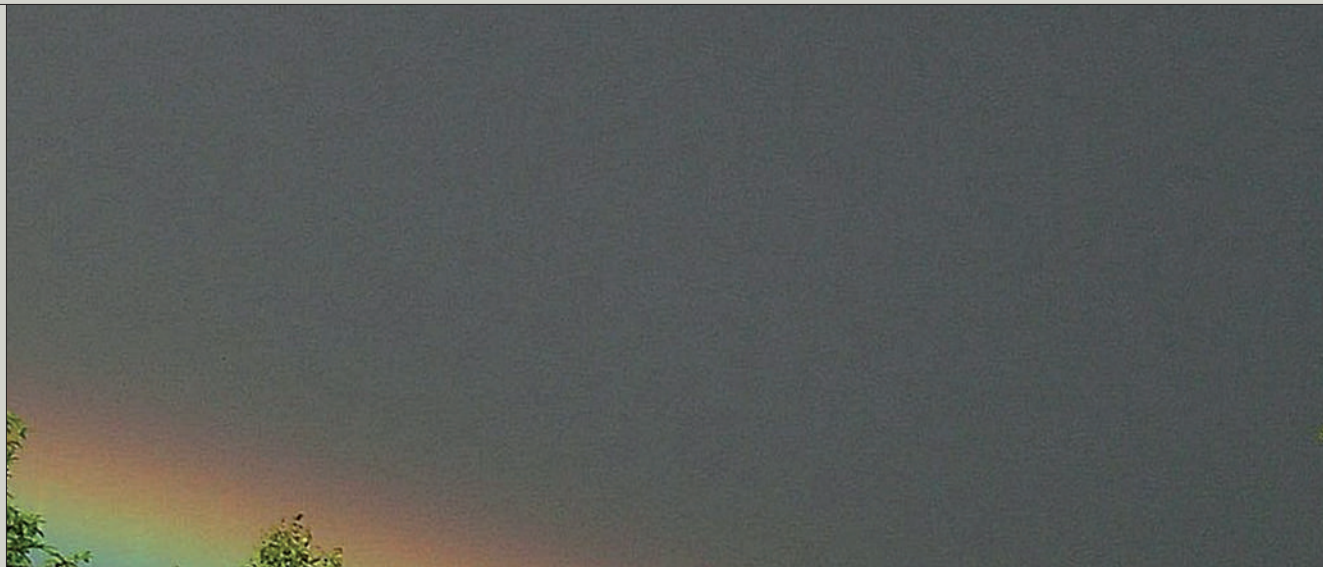
Text	(thousand SKK)		
	2005	2006	2007
<b>A. Cash flows from operating activities</b>			
P/L Profit/loss for the current period before deducting income tax	-829,340	10,781,067	18,961,300
A.1. Non-cash operations A.1.1 to A.1.7	7,580,198	10,005,243	10,286,169
A.2. Influence of changes in working capital, other than cash and cash equivalents	3,339,592	15,452,873	-20,585,147
<b>A* Operating cash flow, except for revenues and expenses, which have to be recognised separately (sum of P/L + A. 1. + A. 2.)</b>	<b>10,090,450</b>	<b>36,239,183</b>	<b>8,662,322</b>
A.3 Received interests other than included into investment activities	30,919	54,900	33,898
A.4 Costs of paid interests, other than included into financial activities	-1,491,052	-2,028,167	-114,404
<b>A** Operating cash flow before income tax cash flow and extraordinary cash flow (sum of A* + A. 3.+ A. 4.)</b>	<b>8,630,317</b>	<b>34,265,916</b>	<b>8,581,816</b>
A.5 Expenses on income tax (including expenses on settlement of additional fee and income from overpayment return), other than specifically included into investment or financial activities			
A.6 Extraordinary revenues related to operating activities	548,805	121	0
A.7 Extraordinary expenses related to operating activities	-1,820	0	0
<b>A*** Net operating cash flow (sum of A**+ A. 5. to A. 7.)</b>	<b>9,177,302</b>	<b>34,266,037</b>	<b>8,581,816</b>
<b>B. Cash flows from investment activities</b>			
B.1 Income from dividends and other profit share	0	0	-146
B.2 Change in non-current assets	-6,814,394	-8,886,598	-9,793,551
<b>B. Net cash flow from investment activities</b>	<b>-6,814,394</b>	<b>-8,886,598</b>	<b>-9,793,697</b>
<b>C. Cash flows from financial activities</b>			
C.1 Change in equity	0	-4,180,074	-669,691
C.2 Change in long-term liabilities	-2,472,799	-66,603	-5,950
C.3 Change in bank loans and borrowings	819,899	-20,905,723	1,188,146
<b>C. Net cash flow from financial activities</b>	<b>-1,652,900</b>	<b>-25,152,400</b>	<b>512,505</b>
<b>D. Net increase or decrease of cash and cash equivalents A***+B+C</b>	<b>710,008</b>	<b>227,039</b>	<b>-699,376</b>
<b>E. Balance of cash and cash equivalents at the beginning of the accounting period (as of 1 January)</b>	<b>146,284</b>	<b>856,292</b>	<b>1,083,331</b>
<b>F. Balance of cash and cash equivalents at the end of the accounting period before considering foreign exchange differences as of 31 December</b>	<b>845,718</b>	<b>1,070,470</b>	<b>376,081</b>
<b>G. Final foreign exchange differences as of 31 December</b>	<b>10,573</b>	<b>12,861</b>	<b>7,874</b>
<b>H. Balance of cash and cash equivalents at the end of the accounting period (as of 31 December)</b>	<b>856,292</b>	<b>1,083,331</b>	<b>383,955</b>



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### Financial indicators of the economy level (Slovak accounting standards)

	unit	2005	2006	2007
<b>Liquidity indicators</b>				
Immediate liquidity		0.07	0.04	0.07
Current liquidity		0.29	0.10	0.42
Total liquidity		0.33	0.12	0.54
<b>Indicators of cost rate</b>				
Cost rate	%	101.46	64.72	46.30
Wage and salaries demands	%	32.39	19.89	18.52
<b>Indicators of indebtedness</b>				
Self-financing coefficient	%	45.78	59.46	85.66
Total indebtedness	%	54.22	40.54	14.34
Debt-to-equity ratio	%	118.44	68.17	16.74
<b>Indicators of labour productivity</b>				
From revenues	SKK/ employee	980,424	1,686,411	1,963,505
From performance	Train-km/ employee	2,501	2,756	2,775
From added value	SKK/ employee	303,917	293,974	275,424
<b>Indicators of activity – turnover interval</b>				
Inventories	day	17.11	22.12	24.68
Short-term trade receivables	day	68.68	30.74	48.00





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## Procurement of tangible and intangible investments (Slovak accounting standards)

		(million SKK)		
		2005	2006	2007
<b>A. TOTAL RESOURCES</b>		<b>6,211.6</b>	<b>8,391.5</b>	<b>9,769.9</b>
	Subsidies from the state budget	0	367.0	1,035.7
	Own resources	1,862.5	1,819.0	2,338.4
	Loans, issues	655.6	759.3	2,133.7
	ISPA	1,607.9	1,233.4	153.9
	Co-financing of the SR to ISPA	1,817.6	1,796.4	1,050.2
	European Regional Development Fund (ERDF)	201.0	1,056.0	863.1
	Co-financing of the SR to ERDF	67.0	352.0	287.7
	Cohesion fund (CF)	0	724.8	1,404.3
	Co-financing of the SR to CF	0	254.7	412.4
	TEN-T	0	16.2	36.0
	Co-financing of the SR to TEN-T	0	12.7	54.5
<b>B. TOTAL USE</b>		<b>6,211.6</b>	<b>8,391.5</b>	<b>9,769.9</b>
<b>B.1</b>	<b>Long-term tangible assets</b>	<b>6,168.7</b>	<b>8,333.0</b>	<b>9,707.2</b>
	Track electrification and pre-electrification modifications	515.8	859.1	343.6
	Telecommunications and radiofication of lines	158.4	73.5	80.0
	Establishment of dispatcher centres at lines, safety installations, universal automatic block (UAB)	230.8	204.5	318.1
	Exchange stations	4.8	62.7	56.7
	Track modernisation and reconstruction	4,389.2	6,903.8	8,184.5
	Buildings – residential and non-housing	685.1	58.6	417.0
	Machines and equipment not included in the construction budget	184.6	170.8	307.3
<b>B.2</b>	<b>Long-term intangible assets</b>	<b>42.9</b>	<b>58.5</b>	<b>62.7</b>



# Research and development



The following resources were used for research and development tasks in 2007:

Resources	Total	Completed	Previous
- from investment funds	4	3	1
- from company costs	38	28	10

Area	Amount (thousand SKK)
<b>Operating processes</b>	
- research costs	2,609
- development costs	7,028

The most significant tasks carried out in 2007 include:

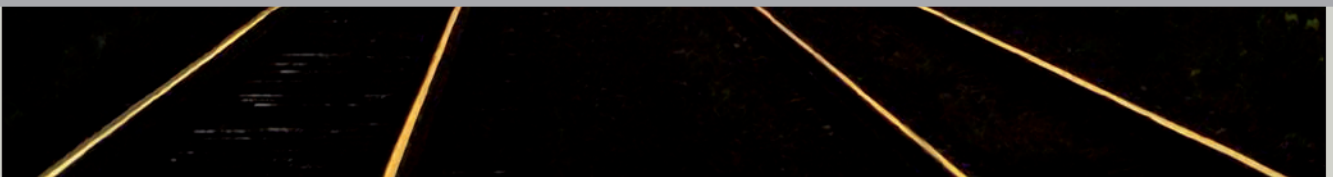
- Implementation of portable system measuring traction and braking power of a motive power unit up to 200 kN
- Implementation of a technical system measuring the heat of wheel and brake blocks during brake trial rides
- Implementation of a tensometric measuring system for percussive tests under dynamic conditions
- Solution for the calibration method of devices measuring basic dimensions at switches
- Programme of train ride simulation
- Development of methodology for ŽSR consumption estimate
- Diagnostic device measuring overhead contact system on an assembly wagon for trolley lines
- Modernisation of electrical pre-heating device
- Analysis of capacity and means to ensure operation and restoring of railway traffic in emergency situations
- Verification of the use potential of an electronic impact measuring device recording the value of overload (g) under normal operational condition
- Utilisation of concrete sleepers from the corridor.

Other tasks focused on the areas related to energy supply, testing, diagnostics and implementation of EU and SR legislation into practice.



## Long-term financial assets

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The structure of ownership interest and property participation of ŽSR as of 31 December 2007 is as follows:

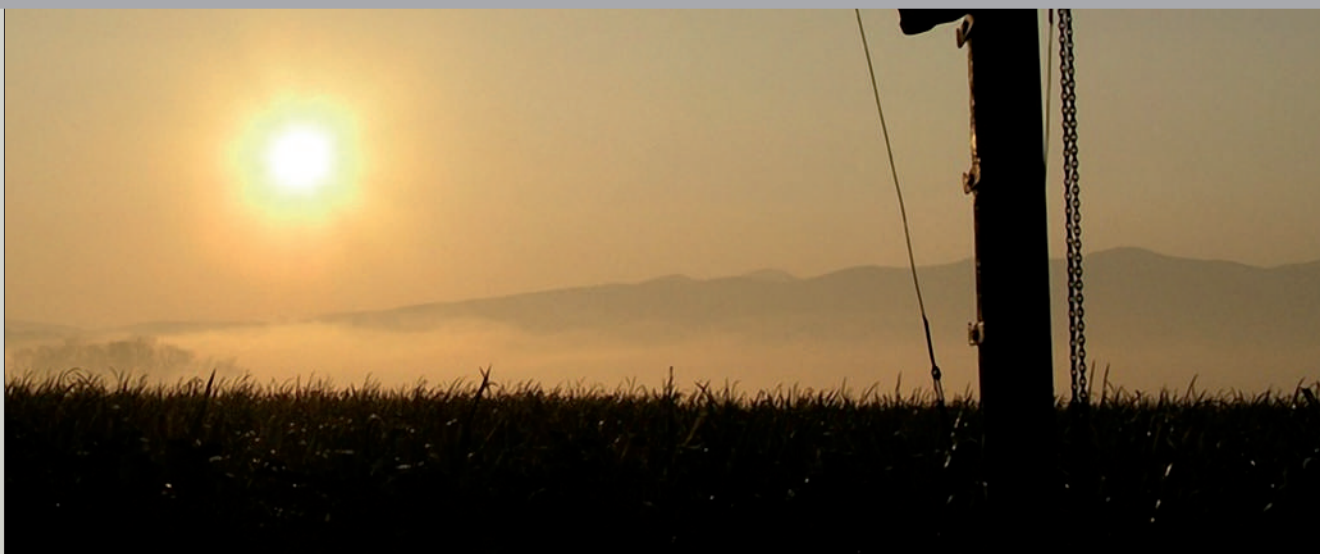
Company:	Share in %	Purchase price of ownership interest in thousand SKK
STABILITA, d.d.s., a.s. *	55.26	27,630
ŽPSV a.s. Čaňa	41.06	21,520
Martinská mechatronická, a.s. (Vrútky)	20.00	200
BETAMAT, a.s. Zvolen	10.00	100
HIT RAIL, B.V. (the Netherlands)	4.00	4,583
STROJEXPORT, a.s. Prague	0.06	1,200

\* The ownership interest of ŽSR in the paid-in capital of STABILITA, d.d.s., a.s. was calculated by the ratio of the special-purpose investment of ŽSR as one of the founder of the supplementary pension insurance company and the

sum total of the investment deposits of all founders. Apart from the deposit in the amount of SKK 27,630 thousand for establishment of company equities, the company was obliged to pay up SKK 2,763 thousand for a reserve fund.



## Human resources



In 2007 ŽSR had an average of 17,982 employees. The planned average registered headcount pursuant to the "Business Plan of ŽSR for 2007" was 18,230. The actual number of employees reached only 17,982 which is 248 employees less as compared to the plan. The registered headcount dropped by 181 as of 31 December 2007 as compared to 2005.

In terms of the "Adaptation programme for graduates of selected schools" ŽSR employed 55 graduates of secondary schools and universities in 2007.

In accordance with the Collective Agreement of ŽSR the average salary amounted to SKK 20,765.

	2005	2006	2007
<b>Total of ŽSR employees (average numbers)</b>	<b>19,663</b>	<b>18,118</b>	<b>17,982</b>
Infrastructure	16,285	15,797	15,621
Directorate General	371	366	409
Other internal organizational units	3,007	1,955	1,952



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## Employment rate

The long-term trend of headcount reduction, which might have amounted to hundreds or thousands of employees per year in the past, slowed down in 2007 in accordance with the consolidation function plan. The priority in the area of human resources in the future shall concentrate on finding solution to the lack of labour force in certain professions

and regions. In this respect a great emphasis is put on employing university graduates within the graduate adaptation programme.

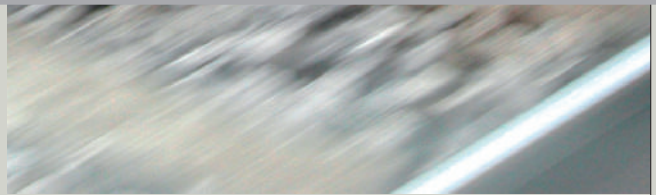
ŽSR have been implementing 10 projects related to human resources development co-financed from the European Social Fund.

## Employees





# Occupational safety



## Occupational injuries

No. of employees	Year			Index	
	2005	2006*	2007	2006/2005	2007/2006
Fatal occupational accidents	1	0	1	0.000	0.000
Severe injury to health	1	1	1	1.000	1.000
Incapacity to work of 42 and more days	-	11	18	-	1.636
Other occupational injuries	80	72	47	0.900	0.653
<b>Total occupational injuries</b>	<b>82</b>	<b>84</b>	<b>67</b>	<b>1.024</b>	<b>0.798</b>

\* From 1 July 2006 the Act no. 124/2006 Coll. Problem of occupational injuries, other injuries, occupational diseases and dangerous events, provided for in the Article 17 of the new Act no. 124/2006 Coll. entered into force. The table states the types of recorded work injuries pursuant to the new act, dividing serious occupational injuries into fatal, serious damage to health and occupational injuries causing incapacity to work of 42 or more days.



# Safety of rail transport

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## Accidents on ŽSR network

	2005	2006	2007	Index	
				2006/2005	2007/2006
<b>Number of accidents on ŽSR network</b>	<b>604</b>	<b>618</b>	<b>591</b>	<b>1.02</b>	<b>0.96</b>
of which:					
Major accidents (A)	128	122	135	0.95	1.11
Of which: A5 category	112	111	119	0.99	1.07
Medium accidents (B)	25	24	22	0.96	0.92
Of which: B5 category	12	15	8	1.25	0.53
Threat to rail transport safety (C)	451	472	434	1.04	0.92
Accidents caused by ŽSR	131	149	127	1.13	0.85
Accidents at level-crossings (cars and pedestrians)	75	67	79	0.89	1.18
Number of fatal injuries	101	101	105	1.00	1.04
Accidents caused by third parties	186	125	243	0.67	1.94
<b>Incurred damage (million SKK)</b>	<b>36.6</b>	<b>52.4</b>	<b>66.9</b>	<b>1.43</b>	<b>1.28</b>
<b>ACCIDENTS CAUSED BY RAILWAY UNDERTAKINGS</b>					
ZSSK Cargo	116	146	156	1.25	1.07
ZSSK	45	61	57	1.35	0.93
Other undertakings	5	11	8	2.20	0.73



# Environmental impact of ŽSR activities





## Environment

### Measures for reduction of negative impacts of ŽSR activities on the environment

The most important measures reducing negative impacts of ŽSR on the environment include:

- continuing wide-range system for collection of dangerous waste in accordance with the effective legislation on waste management,
- reconstruction of bedrock subsoil and underground water in Čierna nad Tisou within the process of removing old ecological burden,
- hydraulic protection of the water source in Boľany, including an imposed monitoring,
- reconstruction of underground water in the area of the railway station of Brezno within the process of removing old ecological burden (oil substances in the soil and free phase of oil substances on the surface of underground water),
- removal and destruction of old ecological burden in the area of Čierna nad Tisou in the volume of ca 43,000 tonnes pursuant to the Act no. 223/2001 Coll. on waste.

### Overview of ecological accidents

In 2007 the following ecological accidents had to be solved as they had impact on the environment and endangered water sources:

- On 31 January ca 10 litres of transformer oil leaked out into the rail foundations at the railway station of Trnava as a consequence of technical breakdown of a locomotive (ZSSK).

- On 17 February diesel oil leaked out from a cistern in front of the station entry in Senec due to insufficiently closed valves.
- On 13 March ca 300 litres of oil leaked out from a motive power unit (Cargo) approximately at 1,300 metre on the section of Šurany – Uľany nad Žitavou due to technical breakdown.
- On 19 March ca 50 litres of diesel leaked out into the rail foundations on the track section Slatinka – Zvolen due to mechanical fault of a ZSSK locomotive.
- On 28 March an unspecified volume of oil leaked out of a ZSSK locomotive into the rail foundations on the track section of Banská Bystrica - Sliach
- On 20 June ca 4,000 litres of diesel oil leaked out into rail foundations at the railway station of Maťovce after damage to fuel tank of a motive power unit.

The measures imposed by state administration bodies on entities causing exceptional water deterioration were fulfilled within the set deadlines.

### Air pollution

The Railways of the Slovak Republic pollute air mainly by stationary sources. In terms of the statutory obligation the air pollution charges by medium sources of ŽSR were calculated for 2007 and settled in the amount of SKK 403,300.



## Important events after 2007





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Binding effect of the international standards of financial reporting pursuant to the Article 1(1) of the Act no. 431/2002 Coll. on accounting as amended, as of 1 January 2008.

Application of EURO introduction principles by ŽSR as well as related normative acts and other methods of shift to EURO.

Adoption of the Operational Programme for Transport for 2007 – 2013 by the European Commission on 13 September 2007 shall take effect in multi-annual measures related to modernisation and development of railway infrastructure, making use of financial support from Cohesion fund and European Regional Development Fund. Measures shall also concentrate on TEN-T support.

Impacts on ŽSR resulting from the MTPT SR document. Re-assessment of performance and economy effectiveness of railway undertakings, including a concept of rail infrastructure charging.

Implementation of railway station revitalisation project from private resources.

160<sup>th</sup> anniversary of arrival of the first steam train to the territory of Slovakia.



# Strategic objectives

The strategic plans of ŽSR depend on external and internal trends of economic and legal environment of a European Union Member State. The European Commission significantly supports rail infrastructure development and gives priority to rail sector over road transport. Railway undertakings may plan important projects for the period of 2007 – 2013. At the same time market and railway strategies are analysed even beyond 2020. Slovakia may expect new opportunities for rail freight transport in the developing industry, especially as regards industrial parks and automotive industry. However, a stronger effort of state bodies is necessary in order to give preference to rail freight transport. Gradual liberalisation of conditions on the transport market puts pressure on the quality of services provided by carriers and infrastructure managers.

## **ŽSR strategy defines its main priorities focusing on:**

- Business activity with dominating train path sale
- Traffic organisation and management
- Infrastructure modernisation supporting business orientation and effectiveness of the company
- Continuing transformation of ŽSR into a market-oriented company operating under conditions of regulated competition

ŽSR goal is to provide quality infrastructure, shorten journey times, and provide for safety and timeliness of transport services, effective operation and costs expensed on infrastructure. These objectives may be achieved by the following steps:

- Harmonising of SR and EU legislation by the State as

regards the legal position of ŽSR as an infrastructure manager, especially in the areas of infrastructure operation funding and balanced economy.

- Maximising the business potential of ŽSR by a flexible offer and effective services, including changes in ŽSR pricing policy.
- Providing precise information on services via information technologies.
- Establishing optimal solutions for business with electricity, telecommunication services, property and other supplementary services of ŽSR.
- Ensuring conditions for interoperability, especially when in contact with neighbouring infrastructure companies.
- Ensuring sufficient financial means for rail infrastructure development by making use of state subsidies, co-financing, EU funds and own resources.

When providing for international transport flows, ŽSR focuses on settling the contacts with the neighbouring railway administrations and related state administration by shifting duties from border stations to existing formation yards.

In view of strategy and forecasts of transport growth between east and west, the railway connections in the east of Slovakia become more and more important. The EU puts adequate significance to this area. The crossings in Čierna nad Tisou and Maťovce are of strategic importance for ŽSR. Slovak railway sector has to put integrated effort in order to include the proposals of a priority freight network, the



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so-called Primary Freight Network, into ŽSR corridors. As regards combined transport, MTPT SR coordinates the process of preparation of four new public intermodal terminals in the period of 2007 - 2013. The terminal in Žilina Teplička shall be the first to be constructed. ŽSR shall take over the role of an investor and manager. The railway connection between Vienna and Bratislava has become an important project with a potential growth for both passenger and freight in the "Centropa" region and as a part of TEN-T 17 project of the line connecting Paris - Strasbourg - Stuttgart - Vienna - Bratislava that is planned to be completed by 2015. The project preparation has begun; however, the coordination with the urban public transport in the area of Bratislava appears difficult. As regards regional transport, harmonisation of traffic between individual regions, which may become important players in organising regional transport, is needed. Transport market liberalisation poses a task of minimizing network bottlenecks by ŽSR that could prevent entry of foreign carriers. Solutions resulting from the technical specification of interoperability and new technologies (ETCS, GSM-R) have to be implemented within agreed time schedules. As regards railway legislation, railway undertakings face further liberalisation measures. ŽSR have been following the legislation process and gradually implement the recommendations in accordance with the national legislation. Participation of ŽSR in significant international railway organisations such as UIC, CER, OSJD, EEC-UNO-TER, G4,

V4, RNE and others enables ŽSR to follow strategic trends and implement the results within the company. Position of railways on the European transport market has been analysed in various EU studies - Trend, Reorient, UIC ERIM and others. Despite substantial investments from the Cohesion fund for modernisation of ŽSR corridors in the period of 2007-2013, there are risks of postponing several technological projects beyond this time framework. Modernised track section of Bratislava Rača - Trnava - Nové Mesto nad Váhom will be gradually launched into operation for speed of up to 160 km/h in the course of 2008 and 2009, which should create conditions for positive image of railway transport in the eyes of passengers.



# Auditor's report

(Slovak accounting standards)



## INDEPENDENT AUDITOR'S REPORT

to the Board of Directors of Železnice Slovenskej republiky Bratislava

We have audited the financial statements of Železnice Slovenskej republiky [Slovak Railroads], Klemensova 8, Bratislava, which comprise the balance sheet as of 31 December 2007, the income statement and the notes to the financial statements for the year then ended, as well as information on material accounting principles and accounting policies and other explanatory notes, from which financial information presented in this annual report has been derived. The financial statements have been prepared in accordance with Act No. 431/2002 Coll. on Accounting. We conducted our audit in accordance with the International Standards on Auditing. In our report of 31 March 2008, we expressed an unqualified opinion on the financial statements, with a paragraph emphasizing the transfer of loans covered by a state guarantee, including additional charges, to the state debt.

In our opinion, financial information presented in the annual report is consistent, in all material respects, with the financial statements from which it has been derived.

In order to obtain a better understanding of the financial position of the company and its financial results for the period, financial information should be assessed together with the financial statements from which this financial information has been derived, as well as with our report on the audit of these financial statements.

Bratislava, 17 April 2008

SOLIDITA, spol. s r.o.  
Kukučínova 28  
831 03 Bratislava  
License SKAU No. 199



*Ráno Tomáš*  
Responsible auditor:  
Ing. Tomáš Ráno  
License SKAU No. 958

# Rating Moody's Investors Service

№ 0081/1

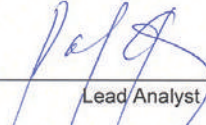
## Moody's Central Europe

assigns the company

**Železnice Slovenskej  
republiky, Bratislava**



Issued at Prague, 6<sup>th</sup> June 2008

  
Lead Analyst  
Moody's Central Europe

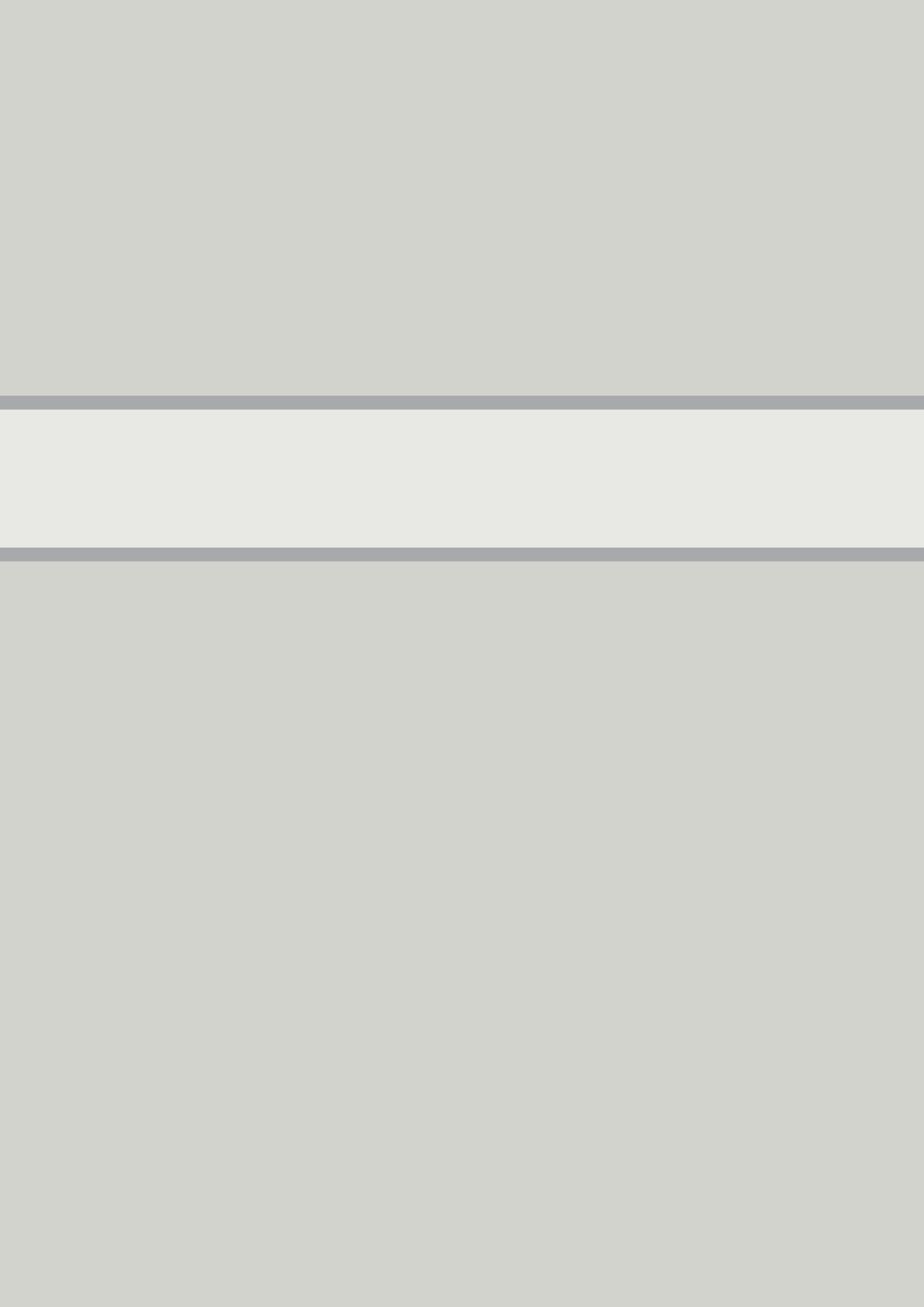
  
Managing Director  
Moody's Central Europe

The Rating above is valid on the day it is awarded. This rating may, however, be amended or terminated on the basis of various events.



**Moody's Central Europe a.s.**







# Contacts



## Directorate General of ŽSR

Klemensova 8  
813 61 Bratislava  
Slovak Republic  
tel: 00421/2/2029 7005  
00421/2/5292 5242  
fax: 00421/2/2029 4700  
e-mail: [gr@zsr.sk](mailto:gr@zsr.sk)

## General representations of ŽSR

### BRUSSELS

LES CHEMINS DE FER DE LA REPUBLIQUE SLOVAQUE  
BUREAU DE REPRESENTATION EN BELGIQUE  
53 Avenue des Arts  
1000 Bruxelles  
Belgique  
tel: +32 2 213 08 61  
Fax: +32 2 512 52 31  
E-mail: [tribulova.zsr@skynet.be](mailto:tribulova.zsr@skynet.be)

### WARSAW

OJSD COMMITTEE  
ul. Hoża 63/67  
00 681 Warszawa  
Poland  
tel: 004822 / 657 3600  
Fax: 004822 / 621 94 17, 0048 22 657 36 54, 0048 22 657 36 90  
E-mail: [osjd@osjd.org.pl](mailto:osjd@osjd.org.pl)

