



annual report **2004**

(chosen data)



TABLE OF CONTENTS

| | |
|---|----|
| ADDRESS BY THE DIRECTOR GENERAL | 01 |
| COMPANY PROFILE | 03 |
| ORGANISATIONAL STRUCTURE | 06 |
| BOARD OF DIRECTORS | 07 |
| EXECUTIVE BODY | 09 |
| SIGNIFICANT EVENTS IN 2004 | 10 |
| INFORMATION ON OPERATIONS | 11 |
| INFRASTRUCTURE | 12 |
| CARRIERS' PERFORMANCE ON RAILWAY TRACKS | 13 |
| PASSENGER TRANSPORT | 13 |
| FREIGHT TRANSPORT | 14 |
| PASSENGER TRAIN TIMETABLE FULFILMENT | 15 |
| REVENUES FROM THE USE OF THE RAILWAY INFRASTRUCTURE | 15 |
| FINANCIAL RESULTS | 17 |
| RISKS AND UNCERTAINTIES AFFECTING ŽSR'S FINANCIAL RESULTS | 20 |
| PROFIT AND LOSS STATEMENT | 21 |
| BALANCE SHEET | 23 |
| CASH FLOW STATEMENT | 25 |
| FINANCIAL RATIOS | 27 |
| ACQUISITION OF TANGIBLE AND INTANGIBLE FIXED ASSETS | 28 |
| RESEARCH AND DEVELOPMENT | 29 |
| FINANCIAL INVESTMENTS | 30 |
| HUMAN RESOURCES | 31 |
| OCCUPATIONAL SAFETY | 32 |
| OCCUPATIONAL INJURIES | 32 |
| ACCIDENTS IN ŽSR'S NETWORK | 32 |
| ENVIRONMENT AND EMPLOYMENT | 33 |
| ENVIRONMENT | 33 |
| EMPLOYMENT | 33 |
| SIGNIFICANT EVENTS AFTER 2004 | 34 |
| CHANGE OF THE ORGANISATIONAL STRUCTURE | 34 |
| ADOPTION OF ACT NO. 109/2005 COLL. | 34 |
| STRATEGIC OBJECTIVES | 35 |
| RATING ANALYSIS CONCLUSIONS | 37 |
| AUDITOR'S REPORT | 38 |
| AUDITOR'S REPORT (IAS) | 39 |
| STATEMENT OF OPERATIONS | 40 |
| BALANCE SHEET | 41 |
| CONTACTS | 43 |
| DIRECTORATE GENERAL OF ŽSR | 43 |
| GENERAL REPRESENTATIONS OF ŽSR | 43 |



ADDRESS BY THE DIRECTOR GENERAL

The Railways of the Slovak Republic (ŽSR) has continued reshaping and refining its internal organisation, and performing the Plan for Fulfilment of ŽSR's Consolidation Function. This has favourably affected the economic results and significantly contributed towards economic stabilisation of one of the largest Slovak companies.



Therefore, the year 2004 can be viewed and assessed positively. Our endeavours and the substantiation of the ongoing transformation processes have also been corroborated by the financial results for 2004.

Instead of the envisaged loss of SKK 751.9 million, we closed the year 2004 reporting a profit of SKK 887.1 million. Compared to the previous year, when a loss of SKK 956.5 million was recorded, our financial results show an increase of SKK 1.843 billion. Such improved financial results are, among other things, a result of implementing the measures set out in the Plan for Fulfilment of ŽSR's Consolidation Function. We have been successful in regulating the financial results and, gradually, discharging our obligations and introducing a more stringent financial discipline.

In 2004, we were awarded a "skAa" long-term local rating and an "A-" long-term international rating by the CRA Rating Agency having reviewed our annual results. The awarded ratings are particularly due to our financial discipline having been made more stringent and owing to reducing the volume of investments funded using own financial resources or extended interest-bearing borrowings. The year 2004 was of special importance to us also due to the fact that Slovakia, including

the Railways of the Slovak Republic, became part of a "new" Europe. As regards activities in the international field, ŽSR actively cooperated with European railway institutions. Slovakia's entry into the European Union is a great challenge for ŽSR, as well. I believe our deeds will prove us to have deserved being an integral part of the new European space.

The results achieved in 2004 should be an incentive for us to carry out our work as done until now and to fulfil our mission in the years to come. In so doing, we will focus on our core business, selling transport route capacities and modernising the railway infrastructure to be able to render high-quality services to particular carriers.

Both ŽSR and all its employees have an ambition to perform their duties and work so as to contribute to further development of railway transport in Slovakia, and to convince the others of the importance of transport by rail and its prospects.

*Ing. Roman Veselka
Director General of ŽSR*

COMPANY PROFILE

ŽSR was established by Act No. 258/1993 Coll. on the Railways of the Slovak Republic, under which the activities of a track and track transport operator shall be performed.

Within the meaning of the approved transformation and restructuring project, ŽSR was transformed by Act No. 259/2001 Coll. into Železničná spoločnosť, a.s., and on amendments and supplements to Act of the National Council of the Slovak Republic No. 258/1993 Coll., with effect as of January 1, 2002. Pursuant to the said legal regulations, the Railways of the Slovak Republic shall undertake activities related to the operation of railway tracks and the management of track transport and operability of railway tracks.

ŽSR's scope of business encompasses as follows:

a) core business

1. operating railway tracks and cableway tracks under a special regulation;
2. conducting activities related to the 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 the means of transport, 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. property 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. rendering services for the lead sectoral railway transport standardisation centre;
 - 2.9. manufacturing, assembling, repair and reconstruction of electric and electronic equipment including inspection and diagnostics;
 - 2.10. transshipment of goods, re-linking and binding of rolling stock and change of transport modifications of goods transported at track gauge transfer points;
 - 2.11. provision of special health care for employees in selected professions;
3. conducting of transport on tracks for the following purposes:
 - 3.1. performing the construction, modifications and maintenance of railway tracks and cableway tracks;
 - 3.2. providing manipulation services, attendance transport services and conveyance services for track transport operators.



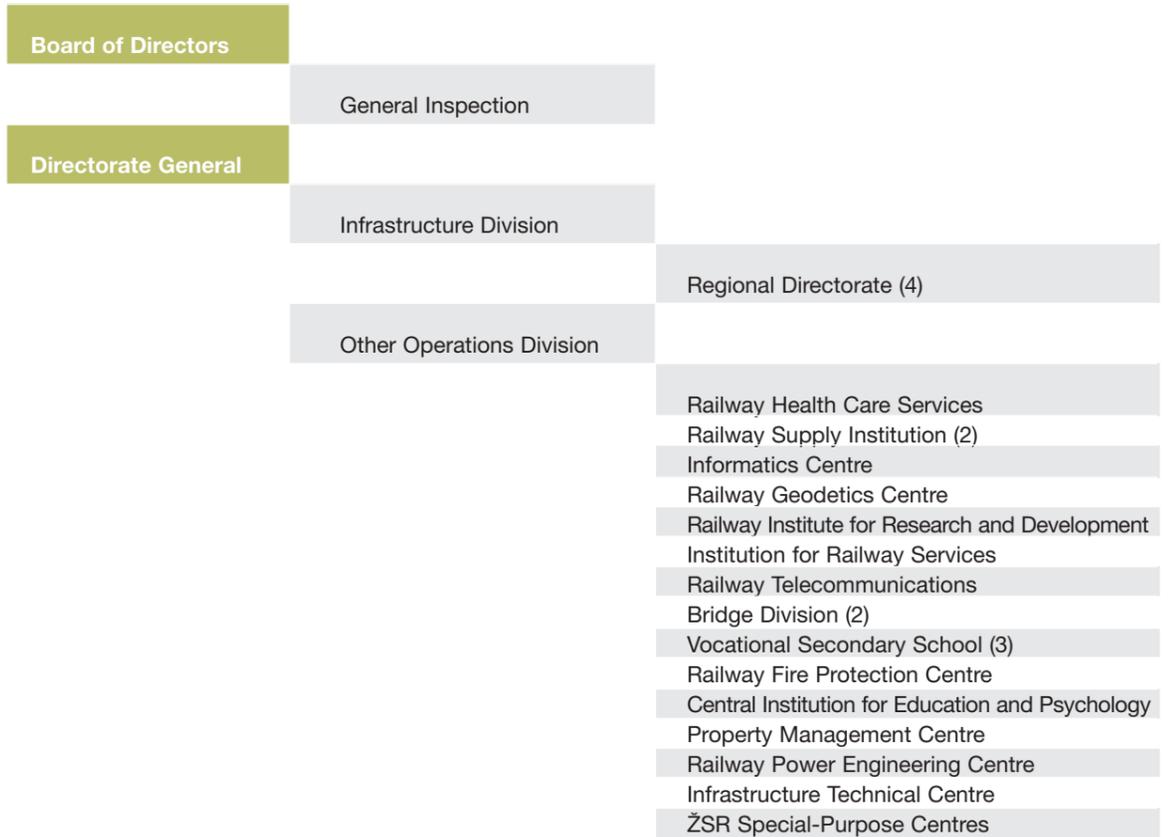
b) other (non-core) business activities entered in the Companies' Registry:

1. projecting and designing activities in capital construction;
2. engineering activities;
3. advertising and promotional activities;
4. copying and photographic activities;
5. organising educational and training activities;
6. examining professional qualifications of employees of railway and special track operators, and issuing professional qualification certificates;
7. examining psychological aptitude of employees of railway and special track operators, and issuing psychological aptitude certificates;
8. psychological services of a non-clinical character;
9. running a travel agency;
10. preventive health care;
11. purchase and sale of goods to businesses (wholesale);
12. purchase and sale of goods to customers (retail);
13. agency activities;
14. heat generation, electricity and heat distribution;
15. testing of rolling stock for railway and special tracks;
16. establishment and operation of a public telecommunications network and provision of public telecommunications services;
17. provision of medical care;
18. activities of accounting consultants;
19. bookkeeping;
20. sale of ready-made software products based on a contract with the author;
21. advisory services and consultancy in the area of hardware and software;
22. preparation of youth for employment and related activities;
23. research and development activities for the construction and operation of tracks of any kind;
24. research and development activities for the operation of transport on tracks of any kind;
25. maintenance, exhibition and demonstration of historic rolling stock for railway and special tracks, including track machinery and special equipment;
26. passenger transport operation on railway and special tracks by using nostalgic trains.



ORGANISATIONAL STRUCTURE

ŽSR's organisational structure in 2004



ŽSR had no separate organisational unit abroad in 2004.

BOARD OF DIRECTORS

Pursuant to the provisions of Sections 4 and 5 of Act No. 258/1993 Coll. on ŽSR as amended by Act of the National Council of the Slovak Republic No. 152/1997 Coll. and Act of the National Council of the Slovak Republic No. 259/2001 Coll., 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, 2004 the Board of Directors of ŽSR was composed as follows:



JUDr. Oszkár VILÁGI

| |
|--|
| JUDr. Oszkár VILÁGI |
| Chairman of the Board of Directors |
| Attorney |
| PhDr. Vladimír DROZDA, CSc. |
| Deputy Chairman of the Board of Directors |
| Ministry of Transport, Posts and Telecommunications of the Slovak Republic (MTPT SR) |
| Ing. Jana ČERVENÁKOVÁ |
| Member of the Board of Directors |
| Ministry of Finance of the Slovak Republic |
| Ing. Pavol KUŽMA |
| Member of the Board of Directors |
| Director General & Chairman of the Board of Directors of Železničná spoločnosť Cargo Slovakia, a.s. |
| Ing. Dušan TURANOVIČ |
| Member of the Board of Directors |
| Director General of the Railroads and Railway Transport Section MTPT SR |
| Ing. Ján MARCIN |
| Member of the Board of Directors |
| Agency Director |
| Ing. Rudolf PECAR |
| Member of the Board of Directors |
| Secretary of the General Council Railway Trade Union, Bratislava |
| František PETROCI |
| Member of the Board of Directors |
| Vice President of the General Council Railway Trade Union, Bratislava |
| František ZAPARANIK |
| Member of the Board of Directors |
| Vice President of the General Council Railway Trade Union, Bratislava |

EXECUTIVE BODY



Ing. Roman Veselka

Composition as of December 31, 2004

| |
|---|
| Ing. Roman VESELKA Director General of ŽSR |
| Ing. Ladislav DIMUN Deputy Director General for Operation Deputy Director General for Development & IT (acting from September 8, 2003 to December 31, 2004) |
| Ing. Štefan HLINKA Deputy Director General for Economy |
| Ing. Ján ŽAČKO Deputy Director General for Human Resources |

SIGNIFICANT EVENTS IN 2004

■ Establishment of new organisational units which started to operate as of January 1, 2004:

- Regional Directorates Trnava, Žilina, Zvolen, Košice
- Railway Power Engineering Centre Bratislava
- Infrastructure Technical Centre Prešov

The establishment of the above organisational units resulted from the 1st stage of change of the ŽSR management and organisation system, which was aimed at transforming 25 railway infrastructure administration centres into 4 regional directorates and rationalising the organisation of ŽSR's Directorate General.

■ Approval by Resolution of the Slovak Government No. 837/2004 of the evaluation of the control mechanism, the financial model and the update of the Plan for Fulfilment of ŽSR's Consolidation Function

■ Settlement of a receivable from the State for services in the public interest during 1994 - 2002

As provided for in Resolution of the Government of the Slovak Republic No. 1178 of 10 December 2003 regarding the settlement of financial relations between the Railways of the Slovak Republic and the State and between Železničná spoločnosť, a.s., and the State, ŽSR and the Ministry of Finance of the Slovak Republic made and entered into an Agreement on the set-off of mutual receivables totalling SKK 13,631 million, whereby ŽSR's receivable from the State for services in the public interest during 1994 - 2002 was offset against loans secured by State guarantee, as part of the adopted Plan for Fulfilment of ŽSR's Consolidation Function.

■ Preparation and adoption of the 2nd stage of change of the ŽSR management and organisation system, which was aimed at transforming the regional directorates into two types of internal organisational units having charge of railway infrastructure management and maintenance as of January 1, 2005.

INFORMATION ON OPERATIONS

INFRASTRUCTURE

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

| Parameter / Year | 2002 | 2003 | 2004 | Index | |
|---|--------|--------|--------|-----------|-----------|
| | | | | 2003/2002 | 2004/2003 |
| RAILWAY LINES & STRUCTURES | | | | | |
| Total construction length of lines (km) | 3 657 | 3 657 | 3 660 | 1,000 | 1,001 |
| of which: | | | | | |
| Single-track lines | 2 638 | 2 638 | 2 640 | 1,000 | 1,001 |
| Double- and multiple-track lines | 1 019 | 1 019 | 1 020 | 1,000 | 1,001 |
| Broad-gauge lines | 100 | 100 | 100 | 1,000 | 1,000 |
| Standard-gauge lines | 3 507 | 3 507 | 3 510 | 1,000 | 1,001 |
| Narrow-gauge lines | 50 | 50 | 50 | 1,000 | 1,000 |
| Non-electrified lines | 2 101 | 2 101 | 2 104 | 1,000 | 1,001 |
| Electrified lines | 1 556 | 1 556 | 1 556 | 1,000 | 1,000 |
| where: | | | | | |
| Electrified AC 25000 V/50 Hz | 738 | 738 | 737 | 1,000 | 0,999 |
| DC 3000 V (other) | 818 | 818 | 819 | 1,000 | 1,001 |
| Total construction length of tracks (km) | 6 878 | 6 877 | 6 881 | 0,999 | 1,001 |
| of which: | | | | | |
| - main tracks | 4 677 | 4 677 | 4 677 | 1,000 | 1,000 |
| - other station tracks | 2 201 | 2 200 | 2 204 | 0,999 | 1,002 |
| Number of switches | 8 787 | 8 773 | 8 767 | 0,998 | 0,999 |
| Number of switch units | 9 823 | 9 777 | 9 771 | 0,995 | 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 length 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 | 2 355 | 2 344 | 2 333 | 0,995 | 0,995 |

| Parameter / Year | 2002 | 2003 | 2004 | Index | |
|---|-------|-------|-------|-----------|-----------|
| | | | | 2003/2002 | 2004/2003 |
| INTERLOCKING EQUIPMENT | | | | | |
| Interlock section blocking | | | | | |
| 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 block system (km) | 42 | 74 | 154 | 1,762 | 2,081 |
| Semi-automatic block (km) | 1 208 | 1 195 | 1 115 | 0,989 | 0,933 |
| - relay | 852 | 875 | 805 | 1,027 | 0,920 |
| - block | 352 | 320 | 310 | 0,909 | 0,969 |
| Lines with line-side telephone | 2 010 | 1 978 | 1 978 | 0,984 | 1,000 |
| Station interlocking equipment | | | | | |
| Operating posts with mechanic interlocking | 250 | 234 | 234 | 0,936 | 1,000 |
| Oper. posts with electromechanic interlock | 102 | 102 | 101 | 1,000 | 0,990 |
| Operating posts with relay interlocking | 129 | 130 | 130 | 1,007 | 1,000 |
| Operating posts with combined interlocking | 308 | 305 | 305 | 0,990 | 1,000 |
| Operating posts with electronic interlocking | 1 | 2 | 3 | 2,000 | 1,500 |
| Remote-controlled - by dispatcher (km) | 35 | 95 | 175 | 2,714 | 1,842 |
| Train interlocking equipment | | | | | |
| Lines with info transm. to train interl. (km) | 554 | 554 | 554 | 1,000 | 1,000 |
| Crossing protection equipment | | | | | |
| Unprotected crossings (units) | 1 322 | 1 319 | 1 319 | 0,997 | 1,000 |
| Protected crossings (units) | 1 159 | 1 160 | 1 160 | 1,000 | 1,000 |
| - mechanic gates | 176 | 167 | 164 | 0,948 | 0,982 |
| - light signalling | 983 | 993 | 996 | 1,010 | 1,003 |
| Hump interlocking equipment | | | | | |
| Track brakes (units) | 87 | 94 | 94 | 1,080 | 1,000 |
| Mechanised humps (units) | 8 | 8 | 8 | 1,000 | 1,000 |
| Semi-automated humps (units) | 0 | 0 | 0 | 0 | 0,000 |
| Automated humps (units) | 1 | 1 | 1 | 1,000 | 1,000 |
| Compressor plants (units) | | | | | |
| - packaged three-dimensional (mobile) | 11 | 9 | 9 | 0,818 | 1,000 |
| - packaged spiral (mobile) | 0 | 2 | 2 | 0 | 1,000 |
| - stationary (hall) | 12 | 12 | 12 | 1,000 | 1,000 |

CARRIERS' SERVICES ON RAILWAYS TRACKS

The Railways of the Slovak Republic provided for the 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 ZSR and the Slovak Ministry of Transport, Posts and Telecommunications as well as under track transport operation agreements with carriers.

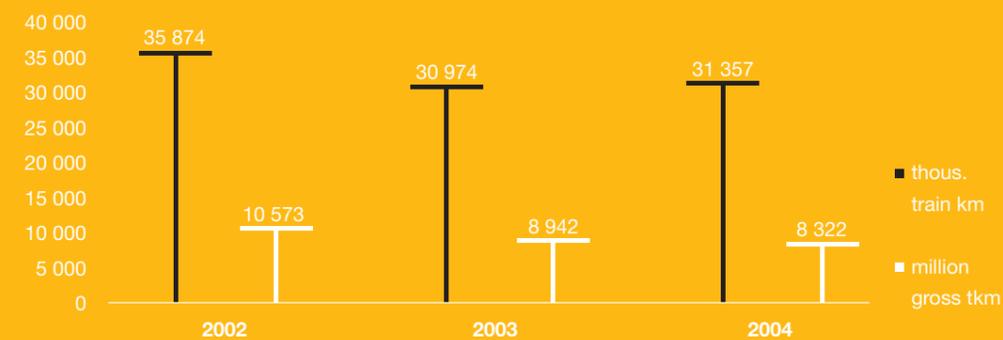
PASSENGER TRANSPORT

| Performance / period | 2002 | 2003 | 2004 |
|---------------------------------------|---------------|---------------|---------------|
| Total (thousand train km) | 35 874 | 30 974 | 31 357 |
| of which | | | |
| Electric traction | 20 142 | 18 971 | 18 947 |
| Diesel traction | 15 732 | 12 003 | 12 409 |
| Total (million gross train km) | 10 573 | 8 942 | 8 322 |

Passenger transport services in 2004 by type of train

| Type of train | | thous. gross tkm | train km |
|---------------------|----------|------------------|------------|
| Eurocity, Intercity | (EC, IC) | 496 265 | 1 105 974 |
| Express | (Ex) | 405 784 | 995 950 |
| Fast train | (R) | 3 201 138 | 6 747 184 |
| Local express train | (Zr) | 402 756 | 1 428 197 |
| Slow train | (Os) | 3 756 511 | 20 628 341 |
| Extra train | | 3 718 | 8 503 |
| Set train | (Sv) | 42 484 | 160 541 |
| IC set train | (Sv IC) | 1 055 | 3 178 |
| Service train | (SI) | 1 666 | 65 510 |
| VUC Train | (VUC) | 0 | 1 |

(VUC = higher territorial unit)

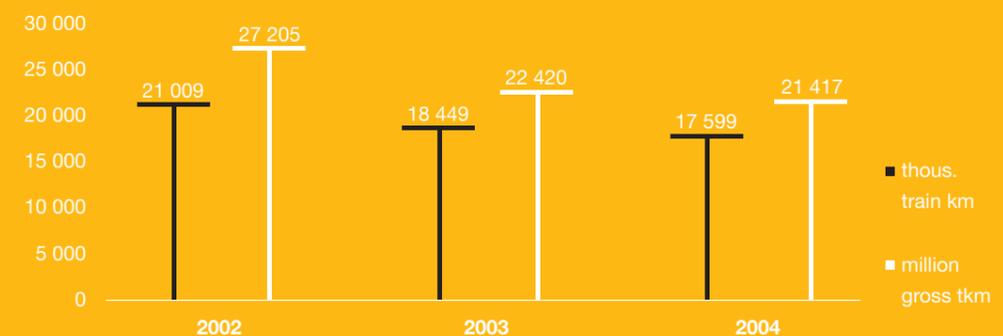


FREIGHT TRANSPORT

| Performance / period | 2002 | 2003 | 2004 |
|---------------------------------------|---------------|---------------|---------------|
| Total (thousand train km) | 21 009 | 18 449 | 17 599 |
| of which | | | |
| Electric traction | 15 525 | 13 978 | 13 407 |
| Diesel traction | 5 483 | 4 471 | 4 192 |
| Total (million gross train km) | 27 205 | 22 420 | 21 417 |
| of which | | | |
| Electric traction | 22 441 | 19 667 | 18 943 |
| Diesel traction | 4 764 | 2 752 | 2 474 |

Freight transport services in 2004 by type of train

| Type of train | | thous. gross tkm | train km |
|------------------------------|-------|------------------|-----------|
| Fast freight train | (Rn) | 594 | 429 |
| Through freight train | (Pn) | 13 056 698 | 7 373 428 |
| Balanced freight train | (Vn) | 1 861 864 | 1 692 850 |
| Way freight train | (Mn) | 1 003 430 | 2 393 224 |
| Exchange freight train | (Pv) | 214 811 | 262 366 |
| Local express freight train | (Zn) | 4 811 288 | 3 556 690 |
| Express freight train | (Nex) | 232 401 | 261 120 |
| Express parcel freight train | | 177 513 | 158 217 |



PASSENGER TRAIN TIMETABLE FULFILMENT

in%

| Type of train | Actual status | | | Index | |
|----------------------------------|---------------|--------------|--------------|--------------|--------------|
| | 2002 | 2003 | 2004 | 2003/2002 | 2004/2003 |
| international fast trains | 89,85 | 94,44 | 90,80 | 1,051 | 0,961 |
| domestic fast trains | 90,58 | 92,17 | 92,97 | 1,017 | 1,009 |
| slow trains | 97,36 | 97,84 | 97,52 | 1,004 | 0,997 |
| Total passenger transport | 96,83 | 97,35 | 97,09 | 1,005 | 0,997 |

REVENUES FROM THE USE OF THE RAILWAY INFRASTRUCTURE

Providing route sections on the operated railway infrastructure has become the main sales product for ŽSR since January 1, 2002. Until 2001 the railway infrastructure served to provide intra-company services to ŽSR's commercial divisions. The sales of route sections are made at prices regulated by the State. Revenues from the use of the railway infrastructure account for 68.37% of ŽSR's total revenues from own outputs and services and 32.24% of ŽSR's total revenues for 2004.

In 2004, transport on the track was conducted by 13 carriers. Two carriers provided for the operation of passenger transport, while freight transport was conducted by 13 carriers. The largest railway transport operator, Železničná spoločnosť, a.s., carried out 99.5% of all conveyance services.

| Revenues / period | 2002 | 2003 | 2004 |
|------------------------------------|------------------|------------------|------------------|
| Total (thousand SKK) | 8 311 129 | 7 351 377 | 7 070 259 |
| of which | | | |
| Železničná spoločnosť, a.s. | 8 290 585 | 7 325 161 | 7 034 696 |
| Passenger transport | 1 827 836 | 1 654 930 | 1 773 265 |
| Freight transport | 6 462 749 | 5 670 231 | 5 261 431 |
| Other carriers | 20 544 | 26 216 | 35 563 |
| Passenger transport | 0 | 2 049 | 6 673 |
| Freight transport | 20 544 | 24 167 | 28 890 |



FINANCIAL RESULTS

(According to Slovak Accounting Standards)

ŽSR's financial results were significantly affected by Resolutions of the Government of the Slovak Republic No. 549/2003 and No. 837/2004 regarding the Plan for Fulfilment of ŽSR's Consolidation Function and its updates. Within the meaning of the adopted and updated Plan, the following financial measures were implemented by the State in 2004:

- settling a receivable of SKK 13,631,275 thousand from the State for services in the public interest during 1994 – 2002 by inclusion of loans secured by State guarantee in the State debt,
- forgiving the refund of State guarantees provided to ŽSR through the National Property Fund of the Slovak Republic in 2003
- a refundable loan rendered by the Slovak Finance Ministry
- adopting an adjusted repayment schedule for the loan from the State financial assets
- securing, through the National Property Fund of the Slovak Republic, the repayment of outstanding amounts of principal and interest on State guarantee loans for 2004

In 2004, 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 2,3 million for losses to be covered by the State in order to secure the operations and operability of nationwide and regional railroads.

The aggregate financial results reflect the restricting spending policy regarding the purchase of services and the realisation of investments not covered by State subsidies and EU funds, as well as the measures resulting from the Plan for Fulfilment of ŽSR's Consolidation Function.

Based on accounting records for 2004, ŽSR had total revenues of SKK 21,933,421 thousand and total costs of SKK 21,046,273 thousand, resulting in a profit of SKK 887,148 thousand, with an amount of SKK 1,009,385 thousand attributable to profit from the core business (operation and management of nationwide and regional railroads) and an amount of SKK 122,237 thousand being recorded as loss from other activities.

Compared to the figures planned for 2004, the profit achieved was SKK 1,639,049 thousand greater than expected while costs rose SKK 19,698 thousand and revenues SKK 1,658,747 thousand.

The achieved financial results were affected by:

- a loss of SKK 850,559 thousand from operating activities
- a loss of SKK 1,036,705 thousand from financial activities
- a profit of SKK 2,774,412 thousand from extraordinary activities

| | (mil. Sk) | | |
|-----------------------|-----------|--------|--------|
| | 2002 | 2003 | 2004 |
| Costs | 21 163 | 21 641 | 21 046 |
| Revenues | 18 096 | 20 685 | 21 933 |
| Profit+/-Loss- | -3 067 | -956 | 887 |

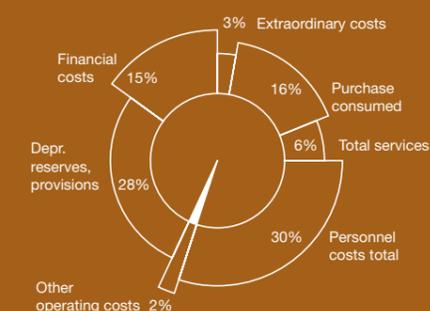
The amount of the costs recorded was particularly affected by:

- costs of material consumption, energy and non-stock inventory in the amount of SKK 3,276,388 thousand,
- total cost of services in the amount of SKK 1,303,031 thousand,
- personnel costs of SKK 6,236,477 thousand, of which wage costs accounted for SKK 4,277,569 thousand,
- tangible and intangible fixed asset depreciation of SKK 2,953 thousand,
- creation of reserves for operations in the amount of SKK 1,546,424 thousand,
- creation of provisions in the amount of SKK 1,243,791 thousand,
- interest expenses for 2004 totalled SKK 1,729,364 thousand,
- creation of reserves for financial activities in the amount of SKK 1,421,274 thousand.

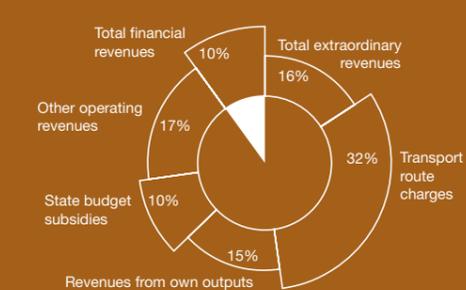
The amount of the revenues recorded was particularly affected by:

- revenues from charges for the use of the railway infrastructure in the amount of SKK 7,070,259 thousand,
- revenues from trading activities in the amount of SKK 1,924,470 thousand,
- subsidies from the State budget to cover losses resulting from the Contract for Services in the Public Interest in the amount of SKK 2,300,000 thousand,
- accounting for operating reserves in the amount of SKK 1,540,960 thousand,
- accounting for provisions in the amount of SKK 1,227,766 thousand,
- foreign exchange gains amounting to SKK 732,001 thousand,
- accounting for reserves to financial revenues in the amount of SKK 1,424,689 thousand,
- extraordinary revenues amounting to SKK 3,435,077 thousand.

Share of selected cost items in total costs



Share of selected revenue items in total revenues



Regarding the operations, the greatest share in ŽSR's 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 profit from the core business amounted to SKK 1,009,385 thousand, resulting from a profit of SKK 785,259 thousand on the operation of railroads for freight transport and a profit of SKK 224,126 thousand on the operation of railroads for passenger transport

Core business

| | | (mil. SKK) | | |
|---|----------------------|---------------|-------------|------------|
| Railroads operation and management for: | | 2002 | 2003 | 2004* |
| Passenger transport | Costs | 5 813 | 5 044 | 4 648 |
| | Revenues | 3 121 | 3 365 | 3 878 |
| | State subsidies | 752 | 818 | 994 |
| | Profit+/loss- | -1 940 | -861 | 224 |
| Freight transport | Costs | 12 173 | 11 211 | 10 592 |
| | Revenues | 9 194 | 9 491 | 10 071 |
| | State subsidies | 1 574 | 1 483 | 1 306 |
| | Profit+/loss- | -1 405 | -237 | 785 |

*the profits were achieved particularly due to the measures inherent in the Plan for Fulfilment of ŽSR's Consolidation Function

of which: Contract for Services in the Public Interest

| | | (mil. SKK) | | |
|---|----------------------|------------|-------------|-------------|
| Railroads operation and management for: | | 2002 | 2003 | 2004* |
| Passenger transport | Costs | 3 599 | 3 465 | 3 378 |
| | Revenues | 2 114 | 1 909 | 2 093 |
| | State subsidies | 1 485 | 819 | 994 |
| | Profit+/loss- | 0 | -737 | -291 |
| Freight transport | Costs | 8 004 | 7 731 | 7 690 |
| | Revenues | 7 163 | 6 250 | 6 002 |
| | State subsidies | 841 | 1 481 | 1 306 |
| | Profit+/loss- | 0 | 0 | -382 |

RISKS AND UNCERTAINTIES AFFECTING ŽSR'S FINANCIAL RESULTS

- Solvency of the largest carriers operating on ŽSR's railway network, privatisation of freight transport and potential reduction of some types of freight transport services
- Risks associated with the implementation of measures contained in the Plan for Fulfilment of ŽSR's Consolidation Function
- Further decrease in transportation services due to preference for road transport
- Limited sources to fund modernisation and modest investments into development enable only slow progress in modernising railway corridor tracks
- Constructions financed from EU funds and the state of their readiness with respect to the funding of investments upon which the continuous drawing of EU funds and State budget subsidies is conditional

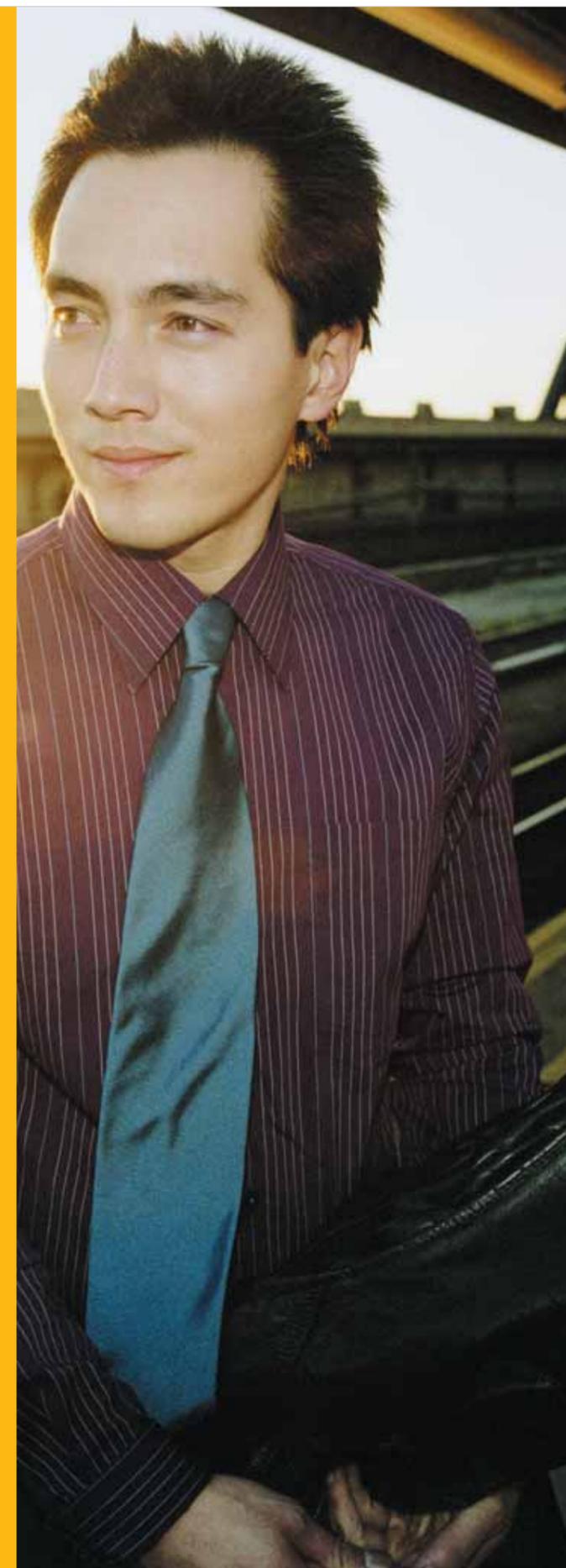
PROFIT AND LOSS STATEMENT

(Slovak Accounting Standards)

Compared to the previous years

| | (thous. SKK) | | |
|---|-------------------|--------------------|-------------------|
| | 2002 | 2003 | 2004 |
| Revenues from sales of merchandise | 124 546 | 88 596 | 80 625 |
| Costs of merchandise sold | 104 792 | 75 469 | 67 811 |
| Trade margin | 19 754 | 13 127 | 12 814 |
| Production | 9 927 144 | 10 513 602 | 10 412 877 |
| Revenues from sale of own products and services | 9 569 706 | 10 411 845 | 10 260 770 |
| Change in inventory of own products and services | 229 | - 1 756 | -196 |
| Capitalisation | 357 209 | 103 513 | 152 303 |
| Production consumption | 3 445 880 | 4 748 152 | 4 511 608 |
| Value added | 6 501 018 | 5 778 577 | 5 914 083 |
| Personnel costs | 5 932 453 | 6 042 669 | 6 236 477 |
| Taxes and fees | 49 781 | 34 029 | 29 571 |
| Other operating revenues | 5 470 957 | 2 861 878 | 2 780 495 |
| Other operating costs | 1 297 301 | 464 416 | 339 959 |
| Depreciation of intangible and tangible fixed assets | 2 591 329 | 2 813 179 | 2 953 770 |
| Use and reversal of reserves, provisions to operating revenues and accounting for complex deferred expenses | 661 950 | 4 640 908 | 3 036 080 |
| Creation of reserves, provisions to operating costs and accounting for complex deferred expenses | 3 176 253 | 3 370 130 | 3 021 440 |
| Operating Profit+/-Loss- | -413 192 | 556 940 | -850 559 |
| Revenues from sale of securities and contributions | 0 | 0 | 0 |
| Sold securities and contributions | 0 | 0 | 0 |
| Financial revenues | 344 486 | 1 133 768 | 763 578 |
| Financial costs | 3 541 645 | 2 377 373 | 1 803 492 |
| Use and reversal of reserves and provisions to finance revenues | 1 365 189 | 647 216 | 1 424 689 |
| Creation of reserves and provisions for financial operations | 63 326 | 1 135 448 | 1 421 480 |
| Profit+/-Loss- from financial operations | -1 895 296 | - 1 731 837 | -1 036 705 |
| Income tax payable from ordinary activities | 34 763 | 9 066 | 0 |
| Profit+/-Loss- from ordinary activities | -2 343 251 | - 1 183 963 | -1 887 264 |
| Extraordinary revenues | 201 873 | 798 909 | 3 435 077 |
| Extraordinary costs | 925 583 | 571 473 | 660 665 |
| Extraordinary Profit+/-Loss- | -723 710 | 227 436 | 2 774 412 |
| PROFIT/LOSS FOR THE ACCOUNTING PERIOD | -3 066 961 | - 956 527 | 887 148 |

PROFIT AND LOSS



BALANCE SHEET

(According to Slovak Accounting Standards)

Compared to the previous years

| | 31.12.2002*/ | 31.12.2003 | (thous. SKK) 31.12.2004 |
|-------------------------------------|-------------------|-------------------|----------------------------|
| ASSETS | | | |
| Total assets | 73 732 815 | 74 024 367 | 61 367 524 |
| Fixed assets | 54 919 309 | 56 932 923 | 57 553 025 |
| Intangible fixed assets | 254 381 | 243 009 | 106 865 |
| Tangible fixed assets | 54 577 765 | 56 660 429 | 57 418 157 |
| Financial investments | 87 163 | 29 485 | 28 003 |
| Current assets | 18 554 220 | 16 897 921 | 3 695 664 |
| Inventories | 1 050 955 | 637 280 | 506 157 |
| Long-term accounts receivable | 4 100 | 249 891 | 31 852 |
| Short-term accounts receivable | 15 094 779 | 15 217 825 | 2 609 247 |
| Financial assets | 2 404 386 | 792 925 | 548 408 |
| Accruals | 259 286 | 193 523 | 118 835 |
| EQUITY & LIABILITIES | | | |
| Total equity and liabilities | 73 732 815 | 74 024 367 | 61 367 524 |
| Equity | 21 526 129 | 21 652 631 | 22 956 095 |
| Registered capital | 21 737 740 | 21 733 242 | 21 733 215 |
| Capital funds | 10 353 831 | 11 441 358 | 11 933 091 |
| Funds from profit | 856 303 | 856 303 | 856 303 |
| Profit+/Loss- from previous periods | -8 354 784 | -11 421 745 | -12 453 662 |
| Profit+/Loss- from current year | -3 066 961 | -956 527 | 887 148 |
| Liabilities | 50 727 263 | 49 868 239 | 33 494 989 |
| Reserves | 1 086 873 | 1 843 402 | 1 657 579 |
| Long-term liabilities | 1 166 138 | 3 768 446 | 3 036 879 |
| Short-term liabilities | 9 418 284 | 5 059 960 | 4 063 818 |
| Bank loans and other loans | 39 055 968 | 39 196 431 | 24 736 713 |
| Accruals | 1 479 423 | 2 503 497 | 4 916 440 |

*/ Adjusted according to Measure of the Slovak Finance Ministry No. 25167/2003-92 of December 11, 2003

BALANCE SHEET



CASH FLOW STATEMENT

(using the indirect methodology
of cash flow statements)

| | | (thous. SKK) | |
|-------------|---|-------------------|--------------------|
| | Text | 2003+ | 2004 |
| A. | Cash flow from operating activities | | |
| P/L | Profit+/loss- for current year before deducting income tax | -1 174 897 | -1 887 264 |
| A.1. | Cashless operations A.1.1 to A.1.7 | 3 806 534 | 7 155 740 |
| A.2. | Change in state of working capital other than cash and cash equivalents | 2 633 491 | 10 525 002 |
| 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 |
| A.3 | Interest received other than that included in investment activities | 60 418 | 31 243 |
| A.4 | Expenses for interest paid other than that included in financial activities | -2 237 446 | -1 729 364 |
| 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 |
| 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 | 798 909 | 3 435 077 |
| A.7 | Extraordinary costs | -571 473 | -660 665 |
| A*** | Net operating cash flow (sum of A**+ A. 5. to A. 7.) | 3 306 470 | 16 869 769 |
| B. | Cash flow from investment activities | | |
| B.1 | Change in state of non-current assets | -3 737 010 | -3 308 167 |
| B. | Net cash flow from investment activities | -3 737 010 | -3 308 167 |
| C. | Cash flow from financial activities | | |
| C.1 | Change in equity | 0 | 0 |
| C.2 | Change in state of long-term liabilities | 2 602 308 | -731 567 |
| C.3 | Change in state of bank loans and other loans | -3 684 714 | -13 080 840 |
| C. | Net cash flow from financial activities | -1 082 406 | -13 812 407 |
| D. | Net increase or decrease in cash and cash equivalents A***+B+C | -1 512 946 | -250 805 |
| E . | Balance of cash and cash equivalents at the beginning of accounting period (as of 1 January) | 1 910 035 | 397 089 |
| F. | Balance of cash and cash equivalents at the end of accounting period before considering foreign exchange differences as of 31 December | 402 585 | 134 811 |
| G. | Foreign exchange differences calculated as of the date of financial statements | -5 496 | 11 473 |
| H. | Balance of cash and cash equivalents at the end of accounting period, adjusted by foreign exchange differences calculated as of the date of financial statements | 397 089 | 146 284 |

+ change of presentation; 2002 is not shown for this reason

CASH FLOW



FINANCIAL RATIOS

(According to Slovak Accounting Standards)

| | Measuring unit | 2002 | 2003 | 2004 |
|------------------------------|-------------------|----------|----------|-----------|
| Liquidity ratios | | | | |
| Immediate liquidity | | 0,21 | 0,07 | 0,06 |
| Current liquidity | | 1,56 | 1,40 | 0,36 |
| Total liquidity | | 1,65 | 1,46 | 0,41 |
| Return on investment | | | | |
| Cost/revenues | % | 116,95 | 104,62 | 95,96 |
| Wage demans | % | 32,78 | 29,21 | 28,43 |
| Debt ratios | | | | |
| Self-financing ratio | % | 31,04 | 32,54 | 45,32 |
| Total debt | % | 68,96 | 67,46 | 54,68 |
| Debt-to-equity ratio | % | 222,13 | 207,36 | 120,66 |
| Labour productivity | | | | |
| From revenues | SKK/employee | 795 419 | 935 721 | 1 045 960 |
| From performance | Train km/employee | 2 500 | 2 236 | 2 333 |
| From added value | SKK/employee | 285 753 | 261 405 | 282 030 |
| Turnover interval | | | | |
| Inventory | day | 37,64 | 21,64 | 17,36 |
| Short-term trade receivables | day | 76,91 | 49,33 | 78,25 |
| Total assets | day | 2 642,12 | 2 511,15 | 2 105,33 |

ACQUISITION OF TANGIBLE AND INTANGIBLE FIXED ASSETS

(Slovak Accounting Standards)

| | (mil.SKK) | | |
|---|-----------------|----------------|----------------|
| | 2002 | 2003 | 2004 |
| A. Resources - total | 10 268,5 | 3 761,3 | 3 629,4 |
| Subsidies from State budget | 417,5 | 526,6 | 983,0 |
| Equity | 7 737,6 | 1 996,9 | 1 210,2 |
| Loans, issues | 1 769,0 | 497,5 | 15,6 |
| ISPA | 344,4 | 740,3 | 1 420,6 |
| B. Use - total | 10 268,5 | 3 761,3 | 3 629,4 |
| B.1 Tangible fixed assets | | | |
| Railway transport route and other internal organisational units | 10 169,3 | 3 644,0 | 3 615,6 |
| Electrification and pre-electrification modifications | 1 008,8 | 146,2 | 171,3 |
| Telecommunications | 1 616,7 | 363,7 | 132,8 |
| Signalling equip., UAB - Universal Auto-Block System | 162,9 | 113,2 | 99,3 |
| Exchange stations | 282,2 | 73,9 | 44,4 |
| Modernisation and reconstruction of tracks | 3 828,0 | 1 992,8 | 2 377,3 |
| Constructions | 2 409,5 | 861,8 | 747,8 |
| SZNR | 861,2 | 92,4 | 42,7 |
| B.2 Intangible fixed assets | | | |
| | 99,2 | 117,3 | 13,8 |



RESEARCH AND DEVELOPMENT

In order to accomplish the research and development-related tasks, the following funds were used in 2004:

| Funds | Total | Completed | Carried over |
|----------------------|-------|-----------|--------------|
| - capital budget | 12 | 7 | 5 |
| - company-wide costs | 45 | 25 | 20 |

| Field | Volume (thousand SKK) |
|-----------------------------------|-----------------------|
| Operating processes | |
| - research costs | 1 727 |
| - development costs | 6 841 |
| Investment processes | |
| capitalised development costs | 3 905 |
| non-capitalised development costs | 1 860 |

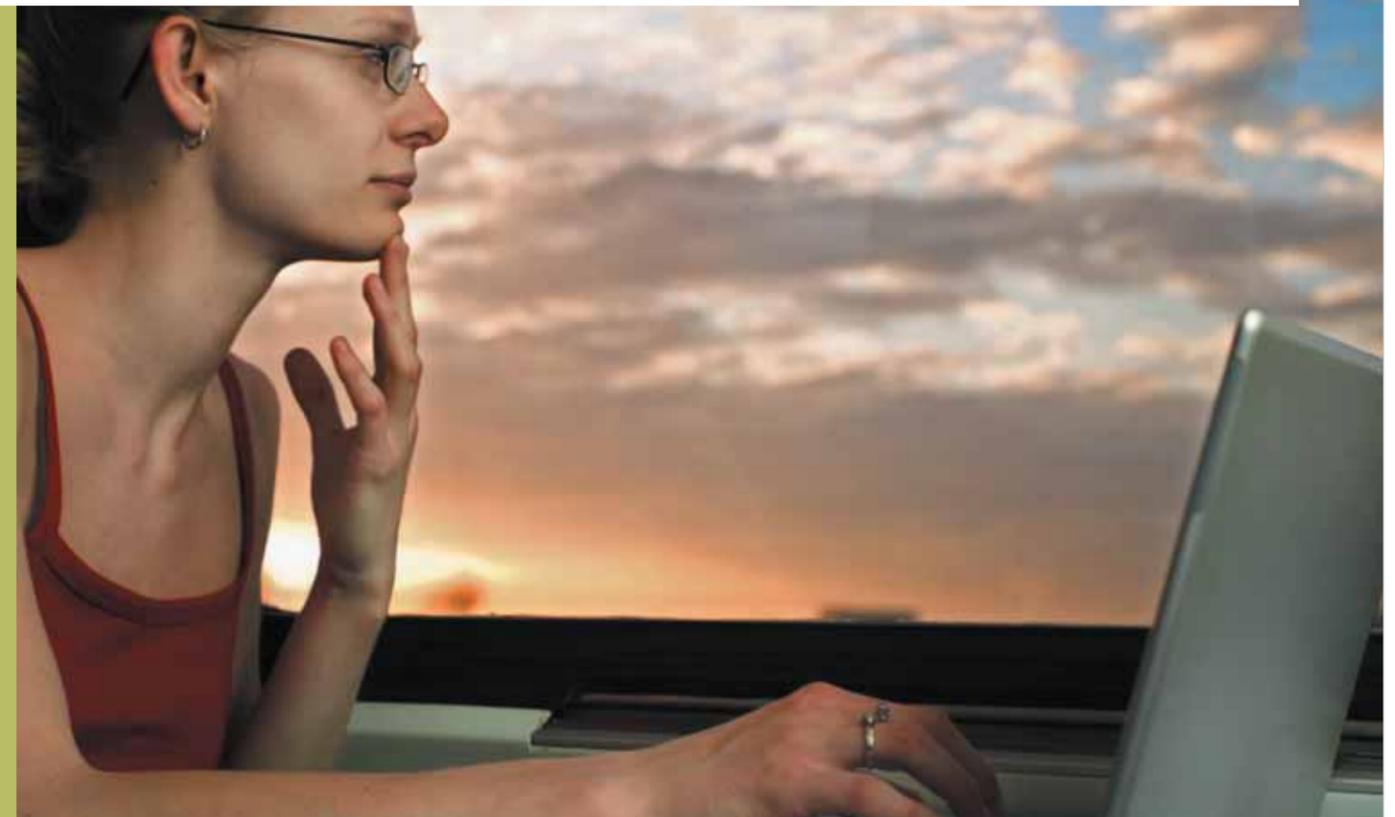
Among the most important tasks accomplished in 2004 are the following:

- Methodology for determination of values of access voltage to tracks of electrified railway lines
- Development of equipment with pre-selection of fast shunting during crash tests
- Technical system for indication and recording of data measured during running tests
- Equipping a measuring coach with a dynamometric device for calculation of the braking weight of rolling stock
- Procedure for evaluation of the operation of track components of line train interlocking equipment
- Solving the method of calibrating thermometers
- Definition of requirements for group laying of traction line
- Railway radio networks – revision of TNŽ 34 2858
- Development of testing equipment for protection from derailment
- Further tasks focused on power engineering, testing, diagnostics and the implementation and EU and Slovak legislation.

FINANCIAL INVESTMENTS

The table below shows the structure of ŽSR's ownership and equity interests as of December 31, 2004.

| Company | Interest in % | Acquisition cost of equity interest in thousand SKK |
|---|---------------|---|
| 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. (the Netherlands) | 4.00 | 4 583 |
| STROJEXPORT, a.s. Prague | 0.06 | 1 200 |



HUMAN RESOURCES

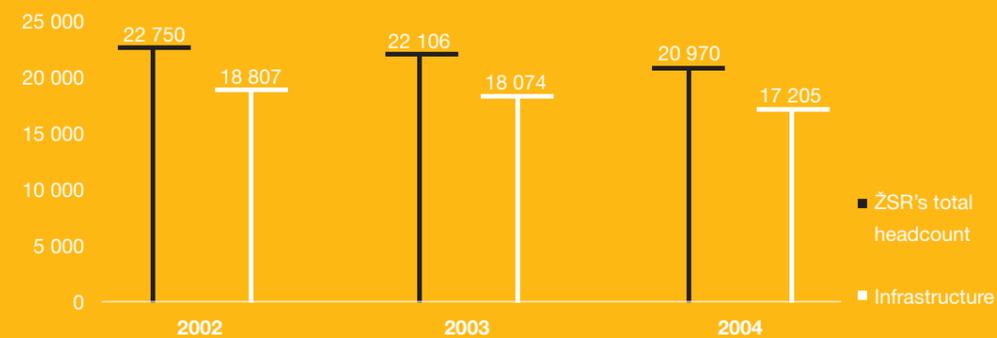
The average number of employees employed by ŽSR (headcount) in 2004 was 20,970 persons, which was a decrease of 413 employees compared to the planned headcount in the same terms.

ŽSR's Business Plan for 2004 required that the registered headcount be reduced by 917 employees and the average registered headcount by 723 employees, by using the optimisation tools. Compared to 2003, the registered headcount actually dropped by 1,147 employees and the average registered headcount by 1,136 employees.

| | 2002 | 2003 | 2004 |
|---|---------------|---------------|---------------|
| ŽSR's total headcount | 22 750 | 22 106 | 20 970 |
| Infrastructure | 18 807 | 18 074 | 17 205 |
| Directorate General | 500 | 507 | 406 |
| Other internal organisational unit | 3 443 | 3 525 | 3 359 |
| Total technical & administration staff | 8 798 | 8 729 | 8 407 |

In 2004, ŽSR engaged a total of 73 graduates from secondary schools and universities as required by the "Adaptation Programme for Graduates from Selected Schools and Universities".

EMPLOYMENT



OCCUPATIONAL SAFETY

OCCUPATIONAL INJURIES

| | 2002 | 2003 | 2004 | Index | |
|------------------|------------|------------|-----------|--------------|--------------|
| | | | | 2003/2002 | 2004/2003 |
| Fatal injuries | 0 | 0 | 0 | 0,000 | 0,000 |
| Serious injuries | 2 | 1 | 1 | 0,500 | 1,000 |
| Other injuries | 124 | 125 | 78 | 1,008 | 0,624 |
| Total | 126 | 126 | 79 | 1,000 | 0,627 |

ACCIDENTS IN ŽSR'S NETWORK

| | 2002 | 2003 | 2004* | Index | |
|---|------------|------------|-------------|-------------|-------------|
| | | | | 2003/2002 | 2004/2003 |
| Number of accidents in ŽSR's network | 902 | 806 | 514 | 0,89 | 0,64 |
| of which: | | | | | |
| Large accidents (A) | 16 | 8 | 96 | 0,50 | 12 |
| of which : A5 category | 0 | 0 | 95 | | |
| Accidents (B) | 16 | 12 | 31 | 0,75 | 2,58 |
| of which : B5 category | 0 | 0 | 24 | | |
| Endangerment and disturbance of traffic (C,D) | 870 | 786 | 387 | 0,90 | 0,49 |
| Accidents caused by ŽSR | 149 | 128 | 126 | 0,86 | 0,98 |
| Accidents caused by ZSSK | - | 408 | 131 | - | 0,32 |
| Accidents caused by third parties | 285 | 270 | 251 | 0,95 | 0,93 |
| Incurred damage (mil. SKK) | 39 | 18 | 21,8 | 0,46 | 1,21 |

* 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 INFLUENCE OF ŽSR'S OPERATIONS ON THE ENVIRONMENT AND EMPLOYMENT

ENVIRONMENT

Measures to eliminate the adverse effects of ŽSR's operations on the environment

These measures particularly include:

- 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 Čierna nad Tisou within the process of removing an old ecological burden, operation of a system for hydraulic protection of the Boľany water source, including the required monitoring
- a Waste Management Programme is being prepared for polychlorinated biphenyls, as required by the Wastes Act 223/2001 as amended

Ecological damage

During 2004 a record was made of one accident having impact on the environment. That accident occurred at the Bánovce nad Bebravou railway station, where a generating car derailed, causing damage to its fuel tank. A committee headed by a state authority established that liability for that accident was on the part of ZSSK. The accident is being investigated; no fine has been imposed so far.

Air pollution charges

ŽSR has a statutory obligation to pay charges for polluting the air with medium sources of pollution.

EMPLOYMENT

The continued reduction of ŽSR's headcount, representing approximately one thousand employees being made redundant per year, has a bearing on Slovakia's rate of employment. The introduced internal labour market is an efficient tool to care for the redundant staff. ŽSR takes on some 70 to 100 graduates from chosen schools and universities, as laid out in the Adaptation Programme for Graduates. ŽSR, being the largest Slovak employer, is engaged in the implementation of measures stemming from the National Employment Plan, in particular from the 1st pillar of measures aimed at increasing employment, and actively participates in projects the EU runs in this area.

SIGNIFICANT EVENTS AFTER 2004

CHANGE OF THE ORGANISATIONAL STRUCTURE

As required by the adopted plan for the 2nd stage of change of the ŽSR management and organisation system, ŽSR wound up four regional directorates and established two new organisational units that began to operate on January 1, 2005 as follows:

For management of railway infrastructure, organisation and control of transport on railway tracks:

- Regional Directorate Trnava, Regional Directorate Košice

For railway infrastructure maintenance

- Railway Infrastructure Maintenance Bratislava

ADOPTION OF ACT NO. 109/2005 COLL.

Act No. 109/2005 Coll. of February 9, 2005 amends and supplements Act No. 164/1996 Coll. on Railways. In 2005, ŽSR will have to adjust its operations to the amendments taking effect as of January 2006, in particular:

- changes in the contractual relationships between ŽSR and the State (cancellation of the Contract for Services in the Public Interest)
- the necessity to set up a new system for financial relations with the State
- establishment of a regulatory office for railway transport, resulting in alterations in the system of regulating the operation of railway tracks, notably as to regulating the method of charging for the use of the railway infrastructure
- changes in the system of securing interoperability

STRATEGIC OBJECTIVES

ŽSR's corporate strategies must conform to the economic and legal environment of an EU member state. The European Commission provides considerable support for the railway sector, which enables particular railway entities to plan stronger positions on the transport market in the future.

Moreover, railway transport is expected to find new opportunities in Slovakia's economic sector, which has been developing most rapidly in the field of industrial parks and automotive industry.

The liberalisation of the transport market encourages ŽSR to become more flexible and competitive.

ŽSR performs the function of an individual railway infrastructure manager whose main priorities include:

- to perform trading activities aimed especially at transport routes trading
- to ensure the process of transport organisation and management
- to modernise the infrastructure in order to support ŽSR's commercial orientation and efficiency
- to continue the transformation of ŽSR into a market-oriented entity in the conditions of regulated economic competition

The requirements for providing a high-quality railway infrastructure, shortening travelling

times, improving transport safety and punctuality and minimising the cost of railway infrastructure and operating expenses can be satisfied provided the following measures are successfully implemented:

- to achieve full harmonisation between Slovak legislation and EU legislation regulating the legal status of ŽSR as railway infrastructure manager, and to set out the relationship between the State and ŽSR as to the financing of services in the public interest
- to maximise the exploitation of ŽSR's business potential by flexibility in making offers and efficiency in rendering services, as well as to make substantial changes in ŽSR's pricing policy
- to create conditions facilitating ŽSR to acquire, as quickly as practicable, precise information on provided services by developing and applying information technologies in planning and monitoring its services
- to find optimum solutions for trading in electric power, telecommunications services, ŽSR's assets and other supplementary services
- to ensure interoperability especially in liaison with other railway infrastructure undertakings
- to obtain finance for ŽSR's activities by appropriate combination of revenues, borrowings and EU funds

Regarding international transport corridors, ŽSR aims to sort out its relations with the adjoining railways and the relevant state administration with regard to transfer of its activities from border transit stations to the existing marshalling yards. Such solutions should eliminate time losses in transportation in the future. Such projects are supported by the EU and coordinated by UIC.

ŽSR's railroads bordering with the Ukraine will be included into the so-called Schengen zone having its specific regime.

In terms of strategy and forecasts for growth in transportation of goods between Eastern and Western European countries, the importance of railway connections between EU member and non-member states is increasing, and the EU pays reasonable attention to this fact.

A railway line between Vienna and Bratislava has become a project of special magnitude with regard to the growing potential of passenger and freight transport in the Central European region.

The liberalisation of the transport market requires ŽSR to minimise those restrictions on its railway network that lay obstacles to the entry of foreign carriers. Solutions ensuing from the technical specifications for interoperability must be implemented by ŽSR by the set deadlines.

The process of solving the regional transport issues remains open and requires conceptual

decisions on the part of the state authorities. The aim is to harmonise transport in particular regions that can play a significant role in organising the regional transport.

As regards railway transport legislation, the so-called second railway package was adopted, comprising Guidelines 2001/12, 2001/13, 2001/14, 2001/16 and their amendments. Proposals inherent in the third railway package require the railway entities to implement further liberalisation measures. ŽSR keeps following this legislative process and, gradually, implementing the recommendations in line with the national legislation

Thanks to its regular membership of several important international railway associations such as UIC, CER, OSŽD, European Economic Commission-UN-TER, G4, V4, RNE and other, ŽSR can track strategic trends and tendencies as to development and position of railway transport on the European transport market. Relevant documents and recommendations of such organisations have been incorporated in the company's strategy.

The ongoing modernisation of railway corridors, the increasing number of carriers operating in ŽSR's network and the continued transformation of ŽSR create preconditions for ŽSR being a successful and efficient railway infrastructure manager operating in the given European region.



RATING ANALYSIS CONCLUSIONS:

Performance of the Železnice Slovenskej republiky, Bratislava (ŽSR) continues to be under considerable impact due to the inherited liabilities pertaining to the split of single railway company into assets and operational part. Taking over debt servicing, property settlement related expenses and insufficient compensation for losses generated as a result of the government transportation policy has transpired into deteriorated financial profile of the company with high debt servicing levels and insufficient operating cash-flow. Taking into account the ongoing restructuring, focused on operational efficiency increases, improved government support in the form of non-investment subsidies and government assistance with servicing of current debt,

**CRA RATING AGENCY, a.s. therefore confirms for
Železnice Slovenskej republiky
short-term CRA rating
skP-1**

Support for the long-term rating level of Železnice Slovenskej republiky, Bratislava is the nature of operations and position of ŽSR as a natural monopoly in the area of operating the railway transportation infrastructure. Among other support factors belongs the statue of the Company, pursuant to special Act windfall government ownership, as well as overall specific position of ŽSR in the economy of Slovakia. Ongoing restructuring with focus on separation of auxiliary activities and improved transparency of operating activities creates a basis for reduction of fixed overheads, which in combination with the increase in government non-investment subsidies will improved the level of generated cash flow. Rating limitation is the current high debt level and real inability to service these liabilities from generated own funds even under the expected performance improvements after the finalisation of restructuring. Risk factor is also the decline in business volume from ŽSR customers and uncertainty with respect to the business plans of new owners after the completion of privatisation and their financial position. CRA expects that considering the strategic importance for the transportation system in Slovakia ŽSR will remain in full government ownership also in the foreseeable future, which will be determining the regulatory and legislative support and subsidy policy in order for ŽSR to service the government commitments in the area of development and upgrading of the railway network and at the same time to be able to service the debt, including liabilities without government guarantee. Hence ŽSR rating shall remain in a close correlation with rating of Slovakia, which was upgraded to level A.

**CRA RATING AGENCY, a.s. therefore confirms for
Železnice Slovenskej republiky
long-term CRA rating
A / skAa-**

In Bratislava and Prague on April 5, 2005

Vladislav HRÁCH

Vladislav HRÁCH
Senior analyst
CRA RATING AGENCY, a.s.

Eubomír DUBECKÝ

Eubomír DUBECKÝ
Director for SR
CRA RATING AGENCY, a.s.

INDEPENDENT AUDITOR'S REPORT

to the Board of Directors of

Železnice Slovenskej republiky, Bratislava

We have audited the accompanying financial statements of Železnice Slovenskej republiky [Slovak Railroads] Bratislava for the year 2004, which contain the balance sheet prepared as of 31 December 2004, the related income statement for the year then ended, and the notes to the financial statements. The 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 evidence, on a test basis, supporting the amounts and disclosures in the financial statements. An audit also includes the assessment of the accounting principles used in the preparation of the financial statements and the evaluation of significant estimates made by the ŽSR Bratislava management, as well as the evaluation of the overall financial statement presentation. We believe 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 ŽSR Bratislava as of 31 December 2004 and its financial result for the year then ended in accordance with the Slovak Act on Accounting.

Without qualifying our opinion, we are pointing out the following:

1. The accompanying accounting records have been prepared on the assumption that ŽSR will continue its activities without interruption (going concern). The ability of ŽSR to continue its activities and investment program and fulfill its obligations arising from loans and operations continues to depend on state financial support and obtaining additional financial resources.
2. In accordance with Resolution of the Government of the Slovak Republic No. 835 of 25 August 2004, the Declaration on the Non-Returnable Character of State Guarantees Executed for Železnice SR via the National Property Fund of the Slovak Republic in 2003 and 2004 was implemented, as a result of which ŽSR has reported profit of SKK 887 million.
3. In accordance with the "Project for Transformation and Restructuring of Slovak Railroads" approved by means of Resolution of the Government of the Slovak Republic No. 830/2000, the preparation of an additional contribution to successor companies of Železničná spoločnosť a.s. in the carrying amount of SKK 904 million continues in accordance with Act No. 259/2001 Coll. This will influence the balance of ŽSR assets.

Bratislava, 15 April 2005

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Račianska 71
832 59 Bratislava
Commercial Register, file 18497/B
License SKAU 199



Jozefína Dráčková
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 ("ZSR" or "the Company") as of 31 December 2004, 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. The financial statements of the Company as of 31 December 2003 were audited by another auditor whose report dated 8 April 2004, expressed an unqualified opinion emphasized the inevitable State support of the Company's activity.

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 2004, 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 profit of SKK 751 million for the year ended 31 December. As of that date its current liabilities exceeded its current assets by SKK 6 368 million. 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 ZSR.

Bratislava, APRIL 28, 2005

SOLIDITA, LTD.
SOLIDITA, Ltd.

STATEMENT OF OPERATIONS

(International Financial Reporting Standards)
for the year ended December 31, 2004

| in million SKK | 2003 | 2004 |
|-------------------------------------|---------------|--------------|
| Revenues | | |
| Track charges | 7 351 | 7 070 |
| Service rendering | 1 441 | 1 538 |
| State subsidies | 10 906 | 2 300 |
| Debts remitted | - | 2 799 |
| Other revenues | 450 | 153 |
| | 20 148 | 13 860 |
| Operating costs and expenses | | |
| Materials and consumables | 1 024 | 1 030 |
| Energy costs | 449 | 514 |
| Repair and maintenance | 814 | 639 |
| Personnel costs | 6 101 | 6 229 |
| Depreciation and amortisation | 2 898 | 3 161 |
| Release of reserves and provisions | (2 904) | - |
| Other operating expenses net | 1 405 | 521 |
| | 9 787 | 12 094 |
| Operating profit | 10 361 | 1 766 |
| Net financial expenses | 2 453 | 1 015 |
| Net profit | 7 908 | 751 |

For a better understanding of the company's financial position as of December 31, 2004 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.



BALANCE SHEET

(International Financial Reporting Standards)
for the year ended December 31, 2004

| in million SKK | 2003 | 2004 |
|--|---------------|---------------|
| ASSETS | | |
| Non-current assets | | |
| Property, plant and equipment | 56 423 | 56 993 |
| Intangible assets | 172 | 108 |
| Other financial assets | 53 | 51 |
| | 56 648 | 57 152 |
| Current assets | | |
| Inventories | 637 | 506 |
| Trade and other receivables | 15 352 | 2 825 |
| Cash and cash equivalents | 793 | 548 |
| | 16 782 | 3 879 |
| Total assets | 73 430 | 61 031 |
| EQUITY & LIABILITIES | | |
| Equity | | |
| Registered capital | 21 733 | 21 733 |
| Capital funds | 11 662 | 12 153 |
| Statutory reserve fund | 636 | 636 |
| Accumulated losses | (13 191) | (12 440) |
| | 20 840 | 22 082 |
| Provisions | 1 334 | 1 308 |
| Non-current liabilities | | |
| Loans and borrowings | 22 968 | 22 351 |
| State subsidies and EU contributions | 2 433 | 4 854 |
| Other non-current liabilities | 253 | 189 |
| | 25 654 | 27 394 |
| Current liabilities | | |
| Loans and borrowings | 15 431 | 1 958 |
| Short-term bank loans | 1 878 | 2 587 |
| Payables and accruals | 6 905 | 5 515 |
| Payables to health and social insurance institutions | 1388 | 187 |
| | 25 602 | 10 247 |
| Total equity and liabilities | 73 430 | 61 031 |

For a better understanding of the company's financial position as of December 31, 2004 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.

BALANCE SHEET



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