

ANNUAL REPORT
2006

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INTRODUCTION of GENERAL DIRECTOR

Dear Ladies and Gentlemen, dear colleagues - railwaymen,

I have the honour to submit to you the Annual Report of the Železnice Slovenskej republiky (ŽSR) for 2006, even if I have participated it only in its last quarter.

If we want to review the previous year, I can state with a pleasure that year 2006 had a significant importance for ŽSR. After the demanding previous years, we finished year 2006 with positive net income, with the profit of SKK 10,781,188.

This extraordinary positive number is conditioned especially by a fulfilment of consolidation function of the Slovak Republic, where, due to very good cooperation with our partners and favour and help of the Government of the Slovak Republic, the Ministry of Transport, Posts and Telecommunications of the Slovak Republic and the Ministry of Finance of the Slovak Republic, it succeeded to solve some old debts of the previous, still unitary Slovak railways. It was a crucial strategic step for railways.

On the basis of adopted and updated plan, the following financial measures have been performed from the part of the state in 2006:

- the settlement of realized state guarantees for ŽSR through the National Property Fund of the Slovak Republic for 2004, 2005 and 2006,
- the release of penalties towards the Social Insurance Company,
- the deposition of a remainder of state receivable being in administration of Ministry of Finance of the Slovak Republic from the Agreement on returnable provision of means from the State financial assets No. 2586/2001-KM/a from August 1, 2001 and a deposition of state receivables from the Agreement on returnable accommodation from the state budget No. MF/015683/2004-442 being in administration of Ministry of Finance of the Slovak Republic as a non-monetary contribution into the fixed assets of ŽSR.

Not mentioning the fulfillment of consolidation function, we have closed with a better economic result of 942 mil. SK

I would like to mention some of other decisive indicators for 2006:

1. The Agreement on railway operation between the Ministry of Transport, Posts and Telecommunications of the Slovak Republic and ŽSR was concluded for 2006. The fixed financial framework of a loss settlement from the part of the state in the amount of SKK 3,600 mil. for ensuring of operation and servicing of national and regional railways was set up by the agreement.
2. In 2006, 23 transport companies carried on the transport on our tracks. Two companies provided the operation of passenger transport and 22 companies provided freight transport. Revenues from infrastructure charges represent a share of 68.71% on total revenues for own outputs and goods and 22.02% on total outputs of ŽSR for 2006.
3. A proposal for increase of a fixed assets of ŽSR in the form of a non-monetary contribution in the amount of SKK 2,380,671 thous. as of December 1, 2006 was approved by the Resolution of the Government of the SR No. 921/2006 from October 31, 2006.
4. In 2006, ŽSR employed 18,118 employees. In accordance with the Collective agreement of ŽSR, the average wage in the amount of SKK 19,535 was achieved.

However, the future of ŽSR shall be more important than its complimentary presence. We shall endeavour jointly in order to be successful in it. We have set a goal for ourselves - to build a long-term prospering company with ensured financial background and financial stability. Only when the abovementioned is accomplished it is possible to develop good programs in future and to ensure in order public means invested into the railway transport to be used efficiently in the benefit of people, who live here.



It shall be important to modernize and build a railway infrastructure. There are projects in the process in the amount of SKK 15 billion, which are to contribute to the development of the transport all over Slovakia. In 2007, the increased emphasis shall be laid to the development of position of Slovakia as an important member within the European and worldwide railway and transport structures. The Slovak railways have their representatives in foreign institutions, and they made a great job for the company and I shall be glad to continue these steps. Based on my experience I know that good relations and especially knowledge from the places, where decisions about the European standards and how the European money are to be distributed are made, may bring huge advantages for those, who are ready.

The investments into maintenance, which start to return after several years, are extraordinary important. It is necessary to implement a system of long-term planning of investments, development and modernization of railway infrastructure.

I got on the board of well running train and I shall be glad if it goes smoothly also in future. I respect railwaymen and appreciate their work, a proficiency of colleagues and all what succeeded to do at railways up to now. Accordingly I think that it shall not be a problem to manage the preferences we have set for this year.

I believe that successes wait for us in ŽSR because there are many skilful and wise people able to work and I am glad that I can cooperate with them.

A handwritten signature in black ink, appearing to be 'D. Zelený', written in a cursive style.

Ing. Dalibor Zelený
General Director of ŽSR

COMPANY PROFILE

ŽSR have been established by the ACT No. 258/1993 Z. z. on Railways of the Slovak Republic, on the basis of which, the activities of railway operator and transport operator were fulfilled.

In accordance with the approved project of transformation and restructuralization, the ŽSR have transformed themselves by January 1, 2002 by the ACT. No. 259/2001 Z. z. on Železničná spoločnosť, a.s. and amendments of the ACT of the Slovak Parliament No. 258/1993 Z. z.

According to the given legal standards, ŽSR provide activities connecting with ensuring of operation of railways, transport control at tracks and operability of tracks.

Subject of the operation is specified as it follows:

A) THE BASIC SUBJECT OF THE OPERATION

1. operation of railways and cable-ways according to special regulation,

2. activities connected with operation of railways and cable-ways:

- 2.1. establishment and operation of railway telecommunication and radio networks,
- 2.2. building, adaptations and maintenance of railways and cable-ways including the equipment of ecologic nature,
- 2.3. maintenance and repairs of transport means, production, maintenance and repairs of special machines, devices and material including revisions and diagnostics,
- 2.4. provision of services in restaurant, accommodating and culture facilities,
- 2.5. renting,
- 2.6. automated processing of data and their transmission,
- 2.7. metrological performances and defectoscopy, diagnostics and measurement of physical quantities, geodetic and cartographic activity,
- 2.8. ensuring of activities of the head of branch standardization centre in railway transport,
- 2.9. production, assembly, repair and reconstruction of electric and electronic equipment, including revisions and diagnostics,
- 2.10. reloading of goods, re-tying of rail vehicles and modification of shipping adaptation of transported goods at a change of rail gauge,
- 2.11. ensuring of special health care for workers of specified professions

3. operation of transport at railway for the following purposes:

- 3.1. building, adaptations and maintenance of railways and cable-ways,
- 3.2. provision of handling services, service transport and service shipping operations for operators of transport at railway





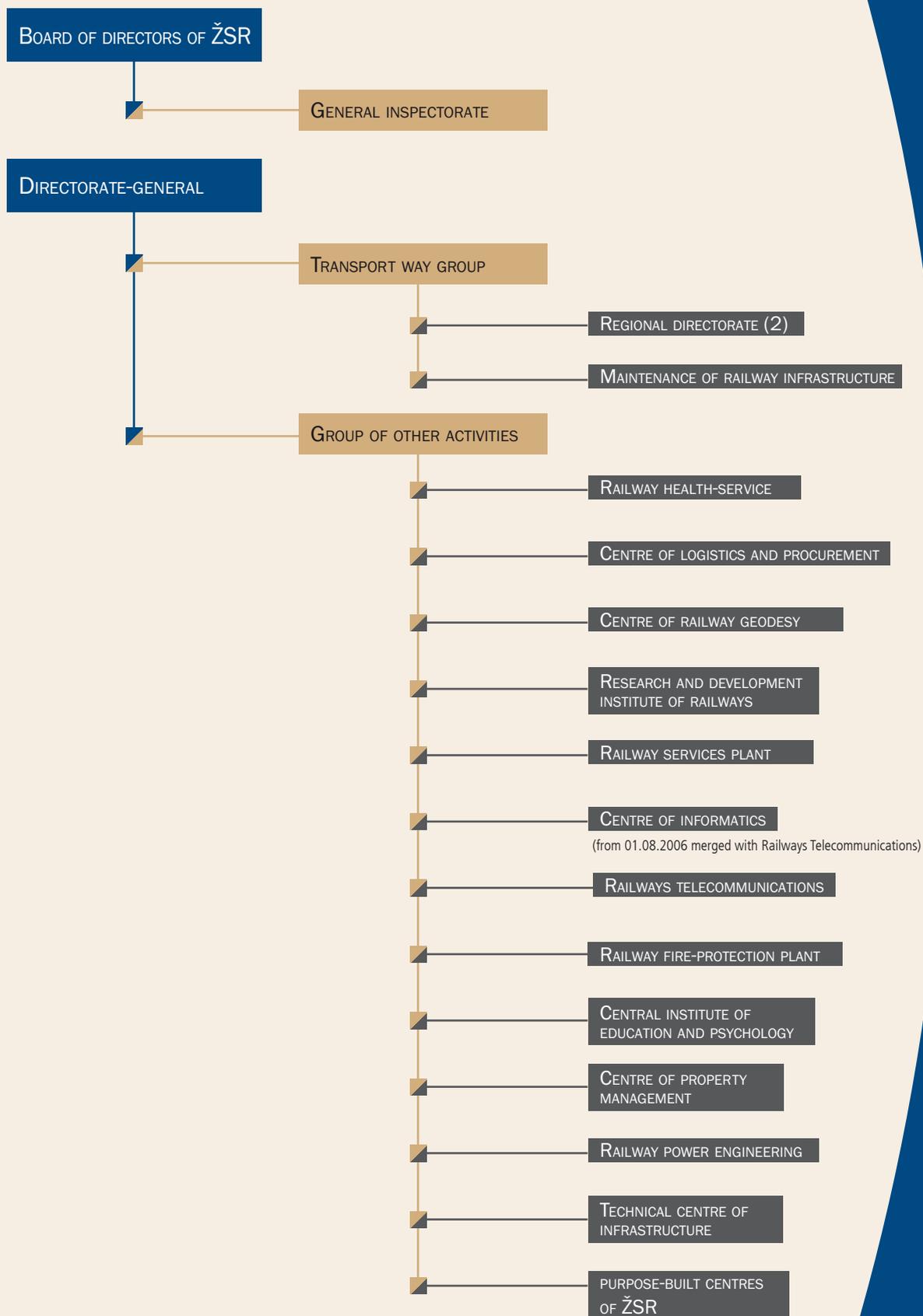
B) ADDITIONAL BUSINESS ACTIVITIES INCORPORATED IN THE COMPANY REGISTER:

1. design activities in investment construction,
2. engineering activities,
3. promotional activities,
4. copying and photographic operations,
5. organizational arrangement and trainings,
6. verification of qualification of employees of railway operators and special tracks and employees of transport operators at railways and special ways and issuing of certifications on qualification,
7. verification of psychological ability of employees of railway operators of and special tracks and employees of transport at railways and special tracks and issuing of certifications about psychological ability,
8. psychological services of non-clinical nature,
9. operation of travel agency,
10. medical and preventing care,
11. purchase of goods for the purpose of its sale to other sole traders (wholesale),
12. purchase of goods for the purpose of its sale to final consumer (retail trade),
13. mediating activities,
14. production of heat, electricity distribution, heat distribution,
15. execution of tests of track vehicles for railways and special tracks,
16. establishment and operation of public telecommunication network and provision of public telecommunication services,
17. provision of medical care,
18. activities of accounting consultants,
19. keeping books,
20. provision of software - sale of completed programs on the basis of an agreement with an author,
21. advisory and consulting activities in the sphere of hardware and software,
22. preparation of youth for profession and activities connected with this preparation,
23. research and development activities for construction and operation of all the lines,
24. research and development activities for operation of transport on all the lines,
25. maintaining, exposure and presentation of historical rail vehicles for railways and special lines, including rail machines and special equipment,
26. operation of passenger transport by nostalgic trains on railways and special lines,
27. execution of revisions of specified technical pressure equipment,
28. execution of examination, revisions and tests of specified technical gas equipment,
29. execution of examination, revisions and tests of machine and mechanical parts of lifting equipment,
30. supply of electricity, electricity distribution,
31. fire protection technician,
32. fire protection specialist,
33. automated data processing.



ORGANIZATIONAL STRUCTURE

ORGANIZATIONAL SCHEME OF ŽSR IN 2006



ŽSR have no independent organizational unit abroad in 2006.



BOARD OF DIRECTORS



According to the provisions 4 and 5 of the Act No. 258/1993 Z. z. on ŽSR as amended by the Act of the NC of SR No. 152/1997 Z. z. and the Act of the NC of SR No. 259/2001 Z. z. the bodies of the ŽSR consist from the Board of Directors of ŽSR and General Director. The Board of Directors is the highest body of the ŽSR and it has nine members.

The Board of Directors of ŽSR has the following structure as of December 31, 2006:



MGR. JURAJ MRAVČÁK

Chairman of the Board of Directors

ING. DUŠAN ŠVANTNER

Deputy Chairman of the Board of Directors

ING. MILAN CHÚPEK, PHD.

Member of the Board of Directors

ING. PAVOL GALLO

Member of the Board of Directors

ING. JOZEF MELNÍK

Member of the Board of Directors

ING. RUDOLF PECAR

Member of the Board of Directors

MGR. FRANTIŠEK PETROCI

Member of the Board of Directors

ING. MILOSLAV VADINA

Member of the Board of Directors

FRANTIŠEK ZAPARANIK

Member of the Board of Directors



MANAGEMENT OF ORGANIZATION



Structure as of December 31, 2006



ING. DALIBOR ZELENÝ

General Director of ŽSR
(entrusted with the office from October 23, 2006)

ING. JOZEF ANTOŠ

Deputy General Director for Operation
(entrusted with the office from October 26, 2006)

ING. IGOR FEDOR

Deputy General Director
for Development and Informatics
(entrusted with the office from November 1, 2006)

ING. ŠTEFAN HLINKA

Deputy General Director for Economics

ING. JÁN ŽAČKO

Deputy General Director
for Human Resources



IMPORTANT EVENTS IN 2006



CHANGE OF ORGANIZATIONAL STRUCTURE

SHIFTING OF ACTIVITIES FROM INTERNAL ORGANIZATIONAL UNITS (IOU) CENTRE OF INFORMATICS TO IOU RAILWAY TELECOMMUNICATION AND FOLLOWING DISSOLUTION OF IOU CENTRE OF INFORMATICS.

By the Order No. 23/2006 of General Director of ŽSR, the activities of the Centre of Informatics were shifted to the Railway Telecommunications as of August 1, 2006 and then IOU Centre of Informatics was dissolved.

SEPARATION OF RAILWAY APPRENTICE TRAINING CENTRES (RATC)

By the Decision of Minister of Education of the Slovak Republic from December 13, 2005, the change of RATC authority has occurred by January 1, 2006 and thus the following IOUs were cancelled in the structure of ŽSR:

- RATC Bratislava
- RATC Trenčín
- RATC Košice

TRANSFER OF MEDICAL FACILITY INTO ECONOMIC LEASE

On the basis of the agreements concluded about a provision of services and economic lease, the economic lease of the following medical facility was agreed:

- Železničná poliklinika Žilina from February 1, 2006

Thus, the stage of transfer of railway health service into economic lease was rounded off.



CONSOLIDATION FUNCTION OF ŽSR

UPDATE OF PLAN OF FULFILMENT OF CONSOLIDATION FUNCTION

Approval of evaluation of control mechanism and financial model for 2005, of update of fulfilment of plan of consolidation function of ŽSR, the financial projections and specifications of relations of ŽSR and state to the plan of fulfilment of consolidation function for 2006 - 2010 (Resolution of the Government No. 511/2006 from June 7, 2006).

INCREASE OF FIXED ASSETS OF ŽSR

The proposal for the increase of fixed assets of ŽSR in the form of non-monetary contribution of state property in the amount of SKK 2,380,671 thous. as of December 1, 2006 was approved by the Resolution of the Government of SR No. 921/2006 from October 31, 2006.

TAKE-OVER OF LOANS WITH STATE GUARANTEE INTO THE STATE DEBT

By the Resolution of the Government of SR No. 1094/2006 from December 20, 2006 it was decided that the loans with state guarantee are taken-over into the state debt. On the basis of this Resolution, the agreement of take-over of the loans with the state guarantee by and between ŽSR, banks and the Ministry of Transport, Posts and Telecommunications (MTPT) of SR was concluded, where it was agreed that state shall take over the loans with the state guarantee from January 1, 2007.

NEW MODEL OF ECONOMIC MANAGEMENT AT ŽSR

RE- DESIGN SAP R/3 PROJECT

In 2006, the project the aim of which was to set up SAP R/3 system according to the new version of SAP and new model of economic management with the aim to increase a level and quality of information support focused to achievement of goals of organizational and economic changes of ŽSR was accomplished, with focus to:

- Transition from the old version of SAP R/3 system version 4.5 to generationally new supported version 5.00 ECC.
- Consolidation of set-up of the system and its functionality, because all the organizational changes were gradually incorporated into the system from the starting of productive operation in 1995 up to separation of ŽSR into three independent subjects, what resulted in problems with data administration and arranging of system operation.
- Implementation of new modules of PM (maintenance), BW (reporting), HR-PD (personnel matters - human resources and wages), RE (real estates), OE (operative registration), ZISS (telecommunication services), EM (media).
- Extension of functionality of operated modules, creation of environment for implementation of new tools for managing of company process including data integration between information systems at ŽSR.



ACHIEVING OF ISO 9001:2000 QUALITY CERTIFICATE

The maintenance of railway infrastructure has achieved ISO 9001:2000 Quality Certificate on December 14, 2006, what means the fulfilment of high demands of ISO standard for quality. By implementation of quality management system according to ISO 9001:2000 under the conditions in ŽSR, the quality of the services provided is guaranteed.

MODERNIZATION OF RAILWAY INFRASTRUCTURE

The investment priority in 2006 was the preparation and execution of the following constructions and projects:

- Modernization of railway line Bratislava Rača - Trnava
- Modernization of railway line Trnava – Nové Mesto nad Váhom
- Electrification of line Zvolen – Banská Bystrica
- Platforms construction at railway station Prešov
- Construction of underpasses and platforms at railway station Poprad - Tatry
- Procurement of study for modernization of railway line in the section of Púchov – Žilina





INFORMATION

ABOUT ACTIVITY DEVELOPMENT

INFRASTRUCTURE

Railways of SR keep and operate the railway tracks of nation-wide and regional significance and facilities in the following characteristic.

Parameters / Year	2004	2005	2006	Index	
				2005/2004	2006/2005
RAILWAY LINES and CONSTRUCTIONS					
Constructional length of lines in total (in km)	3 660	3 658	3 658	0,999	1,000
Including:					
Single-line	2 640	2 639	2 639	0,999	1,000
Double- and more lines	1 020	1 019	1 019	0,999	1,000
Wide-gauge	100	99	99	0,990	1,000
Common-gauge	3 510	3 509	3 509	0,999	1,000
Narrow-gauge	50	50	50	1,000	1,000
Non-electrified	2 104	2 102	2 081	0,999	0,990
Electrified	1 556	1 556	1 577	1,000	1,013
Including:					
Electrified AC 25000 V/50 Hz	737	737	758	1,000	1,029
DC 3000 V (other)	819	819	819	1,000	1,000
Constructional length of lines in total (km)	6 881	6 878	6 867	0,999	0,998
Including:					
- main	4 677	4 674	4 674	0,999	1,000
- other, station	2 204	2 204	2 193	1,000	0,995
Number of switches	8 767	8 759	8 717	0,999	0,995
Number of switching units (s.u.)	9 771	9 758	9 710	0,999	0,995
Number of bridges	2 283	2 283	2 287	1,000	1,002
- steel	504	504	493	1,000	0,978
- massive	1 779	1 779	1 794	1,000	1,008
Total length of bridges (m)	46 762	46 762	46 240	1,000	0,988
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	43 389	1,000	1,000
Railway crossings	2 333	2 328	2 322	0,998	0,997





Parameter / Year	2004	2005	2006	Index	
				2005/2004	2006/2005
INTERLOCKING EQUIPMENT					
Block systems					
Automatic block(km)	690	690	564	1,000	0,817
- one-way	280	280	129	1,000	0,461
- bi-directional	410	410	435	1,000	1,061
Automatic barrier gate (km)	154	154	411	1,000	2,669
Semi-automatic block (km)	1 115	1 115	736	1,000	0,660
- Relay	805	805	593	1,000	0,737
- Block	310	310	143	1,000	0,461
Lines with telephone intercommunication	1 978	1978	1697	1,000	0,858
Station interlocking equipment					
Operating posts with mechanic interlocking	234	234	234	1,000	1,000
Operating posts with electromagnetic interlocking	101	101	101	1,000	1,000
Operating posts with relay interlocking	130	130	129	1,000	0,992
Operating posts with combined interlocking	305	305	25	1,000	0,082
Operating posts with electronic interlocking	3	3	8	1,000	2,666
Remote controlled interlocking by dispatcher (km)	175	175	95	1,000	0,543
Train interlocking equipment					
Lines with information transmission to train interlocking (km)	554	554	564	1,000	1,018
Crossing interlocking equipment					
Un-protected crossings (units)	1 319	1319	1 062	1,000	0,805
Protected crossings (units)	1 160	1160	987	1,000	0,851
- mechanical barriers	164	162	91	0,988	0,562
- light crossing interlocking equipment	996	998	896	1,002	0,898
Hump interlocking equipment					
Track brakes (units)	94	94	93	1,000	0,989
Mechanized humps (units)	8	8	8	1,000	1,000
Semi-automated humps (units)	0	0	0	0,000	0,000
Automated humps (units)	1	1	1	1,000	1,000
Compression plants(units)					
- packed three-dimensional (mobile)	9	9	9	1,000	1,000
- packed spiral (mobile)	2	2	2	1,000	1,000
- stationary (hall)	12	12	12	1,000	1,000



RAILWAY UNDERTAKINGS (RU) PERFORMANCES

In accordance with the Agreement on operation of lines concluded by and between ŽSR and the Ministry of Transport, Posts and Telecommunications of the Slovak Republic, as well as with the Agreements on operation of lines with RU, ŽSR ensured the performances of railway lines for needs of passenger and freight transport.

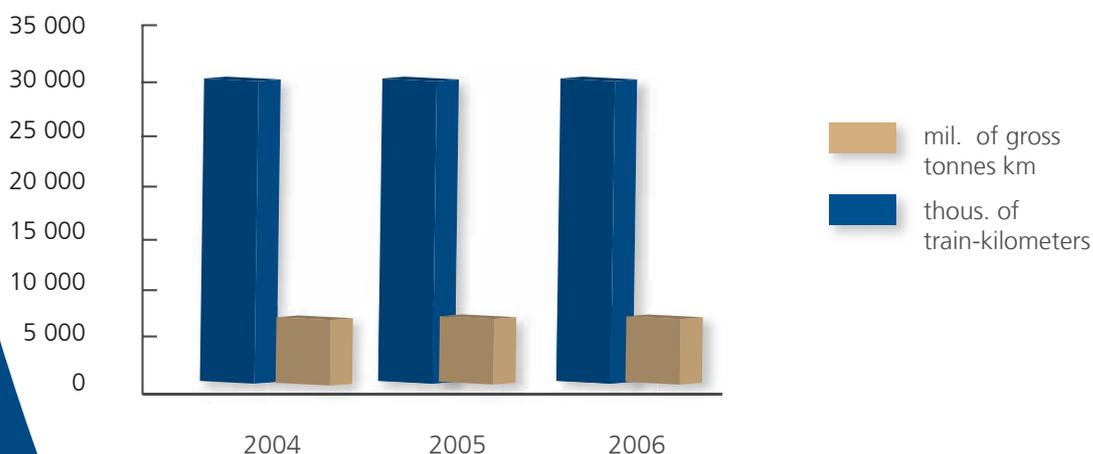
PASSENGER TRANSPORT

Performance/period of time	2004	2005	2006
Total (thous. of train-kilometers)	31 357	31 737	31 977
Total (mil. of gross tonnes km)	8 322	8 308	8 321

PERFORMANCES OF PASSENGER TRANSPORT ACCORDING TO THE TYPE OF TRAIN IN 2006

Train type		thous. of gross tonnes km	train-kilometers
Eurocity, Intercity	(EC, IC)	928 439	1 959 565
Express, passenger	(Ex)	80 101	248 248
Fast, passenger	(R)	3 226 140	6 848 275
Local express, passenger	(Zr)	360 740	1 345 398
Passenger	(Os)	3 637 044	21 029 313
Extra passenger trains	(Mimos)	18 671	46 426
Set	(Sv)	50 039	203 399
Set IC	(Sv IC)	1 483	3 650
Os – special	(OsOs)	5 260	32 065
Service	(Osluz)	27	1 092
Engine trains	(Rv Os)	0	197 758
Motor Rv trains	(MRv)	0	7 125
Set - closures	(track lock)	8 217	36 686
Euro regio	(ER)	1 666	6 987
NDSv	(NDSv)	2 824	8 856
Engine trains, Trial runs	(Rv, Rvsk)	0	1 185
Engine trains during closures	(RvvyI)	0	123

PASSENGER TRANSPORT



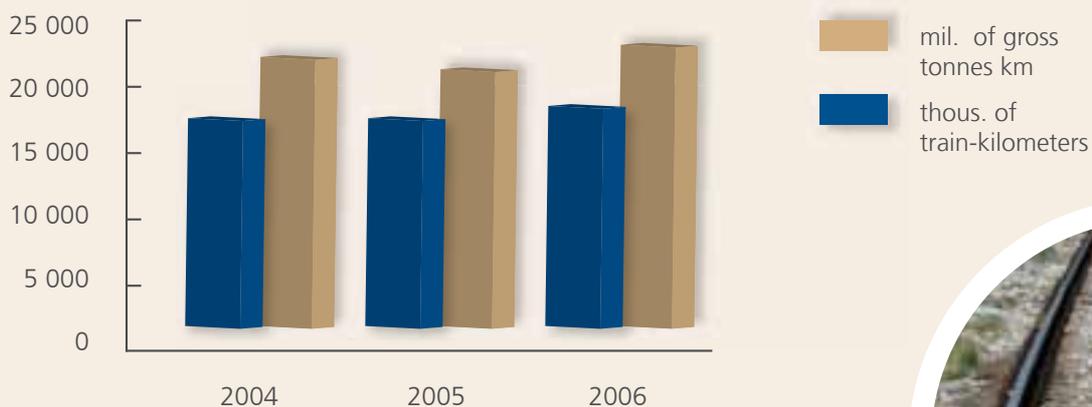
FREIGHT TRANSPORT

Performance/period of time	2004	2005	2006
Total (thous. of train-kilometers)	17 599	17 445	17 959
Total (mil. of gross tonnes km)	21 417	21 140	22 326

PERFORMANCES OF FREIGHT TRANSPORT ACCORDING TO THE TYPE OF TRAIN IN 2006

Train type		thous. of gross tonnes km	train-kilometers
Inter marshalling yard	(Pn)	20 082 165	12 616 954
Short distance goods	(Mn)	909 936	2 161 856
Special trains in FT	(OsND)	552	1 562
Motor Rv train	(MRv)	0	12
Freight express	(Nex)	489 016	505 900
Trains on broad-gauge line	(UZ)	197 522	110 547
Leading trains	(Vlec)	3 097	17 178
Light engine, Trial runs	(Rv, Rvsk)	0	1 901 938

FREIGHT TRANSPORT





FULFILMENT OF TIMETABLE OF PASSENGER TRANSPORT

Train type	2004	Reality		Index (in %)	
		2005	2006	2005/2004	2006/2005
international express trains	90,80	92,07	87,42	1,014	0,949
inland express trains	92,97	92,13	82,53	0,991	0,896
passenger trains	97,52	97,33	94,89	0,998	0,975
Passenger transport total	97,09	96,89	94,48	0,998	0,975

REVENUES FROM USE OF RAILWAY INFRASTRUCTURE

Provision of train paths on the operated railway infrastructure became the main sales product for ŽSR from January 1, 2002. Railway infrastructure was inter-organization service for commercial divisions up to 2001. Sale of train paths is made for the prices controlled by the state. Revenues from use of railway infrastructure represent a share of 68.71% on total revenues for own performances and goods and 22.02% on total revenues of ŽSR for 2006.

In 2006, transport on lines was operated by 23 transport companies. Two companies provided the operation of passenger transport and 22 companies provided freight transport.

Revenues/period of time	2004	2005	2006
Total (thous. of SKK) including:	7 070 259	6 940 703	6 729 686
Železničná spoločnosť Slovensko, a.s.	1 773 265	1 727 287	1 561 000
Železničná spoločnosť Cargo Slovakia, a.s.	5 261 431	5 122 331	4 979 719
Other carriers, including:	35 563	91 085	188 967
Passenger transport	6 673	2 711	45
Freight transport	28 890	88 373	188 922



ECONOMY OF ŽSR

(according to the Slovak accounting standards)

The economy of ŽSR was significantly influenced by the execution of the measures resulting from the Resolution of the Government of SR No. 511/2006 to the plan of fulfilment of consolidation function of ŽSR and its updates. On the basis of adopted and updated plan the financial measures were executed from the part of state in 2006:

- the settlement of realized state guarantees for ŽSR by the National Property Fund for 2004, 2005 and 2006,
- the waiver of the penalties towards the Social Insurance Company,
- an insertion of a remainder of state receivable being in administration of Ministry of Finance of the SR from the Agreement on returnable provision of means from State financial assets No. 2586/2001-KM/a from August 1, 2001 and an insertion of a state receivable from the Agreement on returnable accommodation from the state budget No. MF/015683/2004-442 being in administration of Ministry of Finance of the SR as a non-monetary contribution into the fixed assets of ŽSR.

The Agreement about railway operation between the Ministry of Transport, Posts and Telecommunications of the Slovak Republic and ŽSR was concluded for 2006. The fixed financial framework of a loss settlement from the part of the state in the amount of SKK 3,600 mil. for ensuring of activities of operation and servicing of national and regional lines was set up by the agreement. On the basis of budget provision of Ministry of Transport, Posts and Telecommunications of the Slovak Republic for 2006, this current transfer intended for ŽSR was reduced by SKK 148. mil. to the amount of SKK 3,452 mil.

For 2006, ŽSR achieved, on the basis of accountancy books, total revenues in the amount of SKK 30,554,800 thous., including revenues for own performances and goods in the amount of SKK 9,793,697 thous. at the expenses in the amount of SKK 19,773,612 thous., including production consumption in the amount of SKK 4,693,731 thous. and staff costs in the amount of SKK 6,077,359 thous. The net income of ŽSR was a profit in the amount of SKK 10,781,188 thous., including a loss from main operation (operation and servicing of nation-wide and regional lines) in the amount of SKK 818,347 thous. and a profit from other activities in the amount of SKK 11,599,535 thous. High profit is connected with the fulfilment of the plan of consolidation function of ŽSR from the part of the state. Without an influence of the expenses and revenues resulting from the consolidation function, ŽSR should have showed a loss in the amount of SKK 623,778 thous.

In comparison with the plan for 2006, the better net income by SKK 942,268 thous. was achieved, while the expenses were higher by SKK 606,828 thous. and as well as revenues were higher by SKK 1,549,096 thous. than the plan presumed.

The achieved net income includes:

- a profit from economic activity in the amount of SKK 7,509,931 thous.,
- a profit from financial activities in the amount of SKK 3,271,136 thous.,
- a profit from extraordinary activities in the amount of SKK 121 thous.

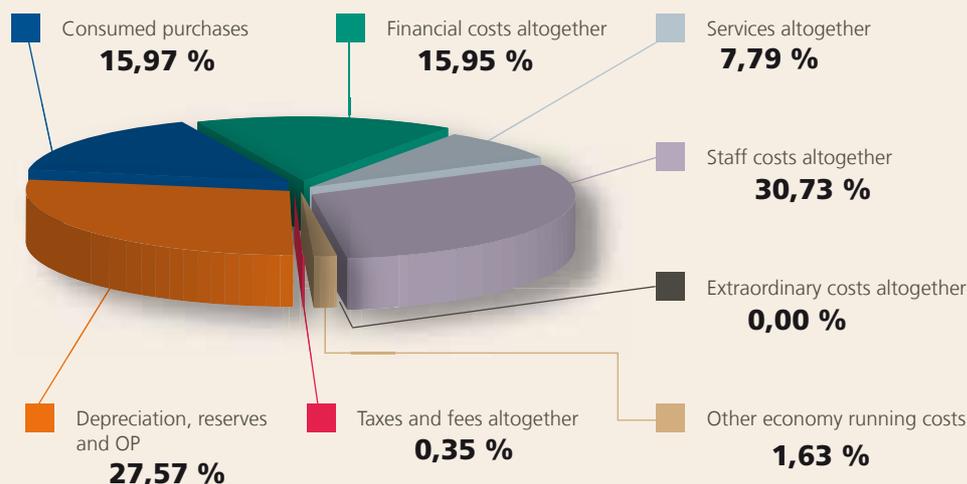
	2004	2005	2006
Costs	21 046	19 560	19 774
Revenues	21 933	19 278	30 555
Profit/Loss	887	-282	10 781

(mil. of SKK)

THE AMOUNT OF RELEASED COSTS WERE INFLUENCED ESPECIALLY BY:

- costs for consumed purchases in the amount of SKK 3,157,253 thous.,
- services total in the amount of SKK 1,540,646 thous.,
- staff costs in the amount of SKK 6,077,359 thous. including wages and salaries in the amount of SKK 4,247,566 thous.,
- depreciation of non-current tangible and intangible assets in the amount of SKK 2,776,469 thous.,
- creation of provisions for liabilities and charges in the amount of SKK 1,293,899 thous.,
- creation of provisions in the amount of SKK 953,504 thous.,
- interest expense for 2006 achieved the amount of SKK 2,028,167 thous.,
- creation of financial provisions for liabilities and charges in the amount of SKK 710,621 thous.

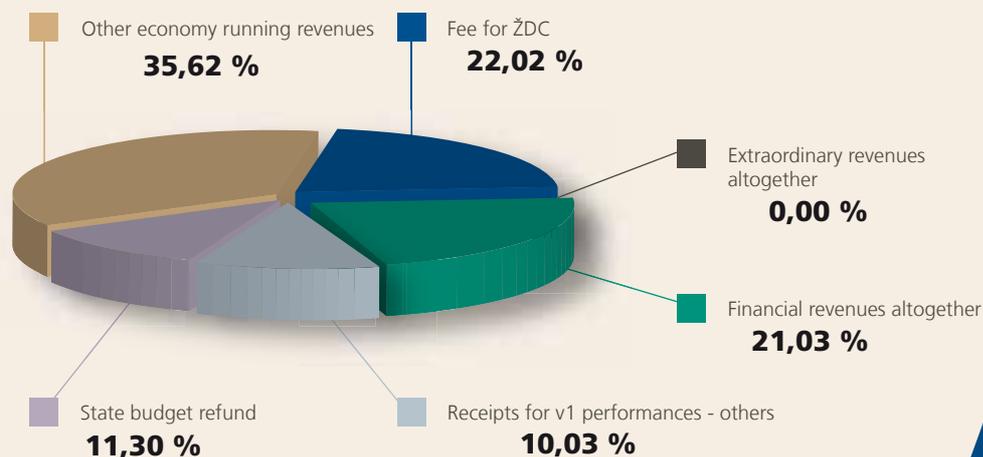
SHARE OF CHOSEN ENTRIES OF COSTS ON GROSS/TOTAL COSTS



THE AMOUNT OF REVENUES RELEASED WAS INFLUENCED ESPECIALLY BY:

- revenues from fee for use of transport route in the amount of SKK 6,729,686 thous.,
- sale of traction electric energy in the amount of SKK 1,829,867 thous.,
- other income from operating activities in the amount of SKK 11,764,966 thous., including subsidy from the State budget for settlement of a loss resulting from the agreement on operation of railway in the amount of SKK 3,452,000 thous., revenues connected with fulfilment of the plan of consolidation function in the amount of SKK 8,038,395 thous.
- release of legal provision from operating activities in the amount of SKK 1,288,586 thous.,
- release of corrective items in the amount of SKK 785,835 thous.,
- foreign exchange gains in the amount of SKK 1,060,213 thous.,
- other financial revenues in the amount of SKK 4,104,442 thous. including revenues resulting from the fulfilment of the plan of consolidation function in the amount of SKK 4,104,422 thous.,
- release of provisions (financial) in the amount of SKK 1,206,112 thous.

SHARE OF CHOSEN ENTRIES OF REVENUES ON GROSS/TOTAL REVENUES





From the point of view of realized activities, the main operation participated in the expenses and revenues of ŽSR decisively, and it is characterized by the performances of operation and servicing of railways for performances of passenger and freight transport.

Total loss from the main operation in the amount of SKK 818 347 thous. was influenced by the loss from operation of railways for freight transport in the amount of SKK 538,146 thous. and the loss from operation of railways for passenger transport in the amount of SKK 280,201 thous.

MAIN OPERATION

		(mil. of SKK)		
Operation and servicing of railways for :		2004	2005	2006
Passenger transport	Costs	4 648	4 188	3 692
	Revenues	3 878	2 653	1 941
	State budget refund	994	1 424	1 471
	Profit/Loss	224	- 111	- 280
Freight transport	Costs	10 592	9 693	8 569
	Revenues	10 071	7 348	6 050
	State budget refund	1 306	2 176	1 981
	Profit/Loss	785	- 169	- 538

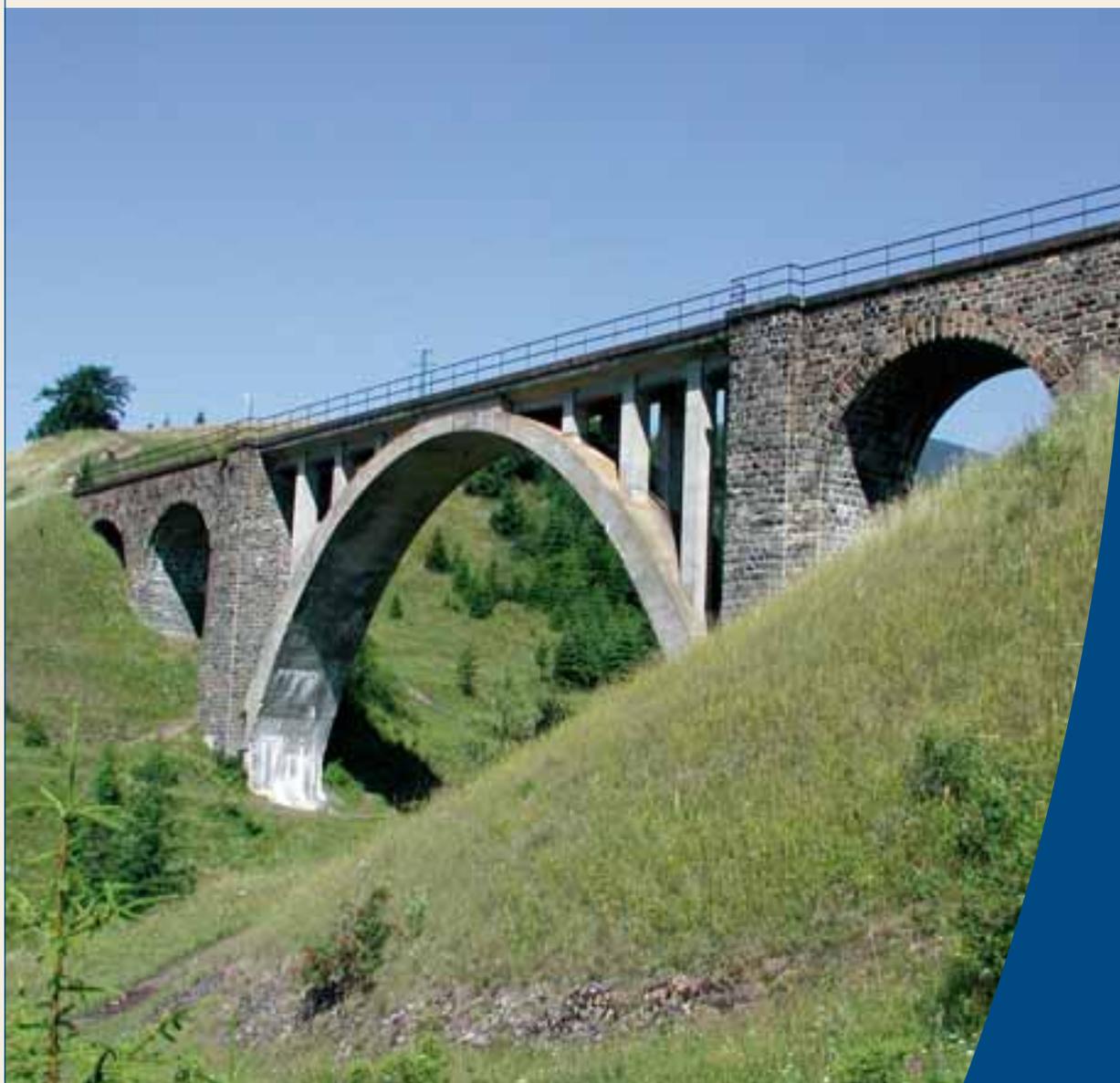
INCLUDING: AGREEMENT ON RAILWAYS OPERATION

		(mil. of SKK)		
Operation and servicing of railways for :		2004	2005	2006
Passenger transport	Costs	3 378	3 311	3 284
	Revenues	2 093	1 946	1 726
	State budget refund	994	1 403	1 471
	Profit/Loss	-291	38	-87
Freight transport	Costs	7 690	7 857	7 622
	Revenues	6 002	5 720	5 541
	State budget refund	1 306	2 197	1 981v
	Profit/Loss	-382	60	-100

RISKS AND UNCERTAINTIES INFLUENCING MANAGEMENT OF ŽSR

Solvency of the largest carriers at ŽSR network, financial status of carrier Železničná spoločnosť Slovensko, a.s., (ZSSK) by virtue of non-balanced relations resulting from the agreement of performances in public interest between state and ZSSK.

- Failure to provide balanced economy of railway infrastructure by virtue of insufficient amount of sources from public administration budget and determination of a way of mutual settlement of non-investment subsidy of owner and operator of railway.
- Limited sources for financing of modernization and development investments base slow advance of modernization, especially of corridor lines.
- Constructions financed from the EU funds, status of their readiness, taking into account the financing of investments conditioning the continuous drawing of the EU funds and the means of state budget for a cofinancing.
- Low utilization of available capacity of railway infrastructure due to insufficient demand from the part of carriers taking the preferences of road transport into account.



PROFIT AND LOSS STATEMENT

(Slovak accounting standards)
Comparison with previous years

	(thous. of SKK)		
	2004	2005	2006
Revenues from sold goods	80 625	78 537	6 041
Costs of goods sold	67 811	61 887	4 168
Gross Margin	12 814	16 650	1 873
Production	10 412 877	10 334 452	10 018 153
Sale of own products and services	10 260 770	10 067 614	9 787 656
Change in inventory of finished goods and work in progress	-196	-18	326
Own work capitalised	152 303	266 856	230 171
Consumption in production	4 511 608	4 375 278	4 693 731
Added value	5 914 083	5 975 824	5 326 295
Staff costs	6 236 477	6 244 358	6 077 359
Indirect taxes and fees	29 571	110 736	68 874
Depreciation of non-current tangible and intangible assets	2 953 770	3 166 881	2 776 469
Use and release of provisions for liabilities and charges and accrued operating revenue	3 036 080	2 573 617	2 137 826
Creation of provisions for liabilities and charges and accrued operating expenses	3 021 440	2 519 374	2 675 387
Other operating revenues	2 780 495	4 113 427	11 966 992
Other operating costs	339 959	251 785	323 093
Operating profit/loss	-850 559	369 734	7 509 931
Revenues from sale of securities and ownership interests	0	0	0
Securities and ownership interest sold	0	0	0
Financial income	763 578	471 546	5 219 555
Financial expenses	1 803 492	1 676 305	2 443 910
Release of financial provisions for liabilities and charges	1 424 689	1 157 362	1 206 112
Creation of financial provisions for liabilities and charges	1 421 480	1 151 677	710 621
Profit/loss from financial activities	-1 036 705	- 1 199 074	3 271 136
Tax on income from ordinary activities	0	0	0
Net profit/loss from ordinary activities	-1 887 264	- 829 340	10 781 067
Extraordinary revenues	3 435 077	548 805	121
Extraordinary costs	660 665	1 820	0
Extraordinary profit/loss	2 774 412	546 985	121
NET PROFIT/LOSS FOR THE PERIOD	887 148	- 282 355	10 781 188



BALANCE SHEET

(Slovak accounting standards)
Comparison with previous years

(thous. of SKK)

	31. 12. 2004	31.12.2005	31.12.2006
ASSETS			
Total Assets	61 367 524	63 625 634	68 885 997
Fixed assets	57 553 025	59 734 525	65 642 488
Long-term intangible assets total	106 865	66 365	104 143
Long-term tangible assets total	57 418 157	59 630 846	65 471 093
Long-term financial assets	28 003	37 314	67 252
Current Assets	3 695 664	3 802 023	3 181 383
Inventory	506 157	494 916	615 859
Long-term receivables total	31 852	30 457	29 217
Short-term receivables total	2 609 247	2 420 332	1 452 905
Financial assets	548 408	856 318	1 083 402
Time diferentation	118 835	89 086	62 126
LIABILITIES			
Total liabilities	61 367 524	63 625 634	68 885 997
Equity	22 956 095	21 543 009	28 144 123
Paid in capital	21 733 215	20 888 758	22 905 924
Capital funds	11 933 091	12 226 328	12 479 451
Funds from profit	856 303	636 303	636 303
Past time profit	-12 453 662	- 11 926 025	-18 658 743
Profit/Loss of accounting period	887 148	- 282 355	10 781 188
Payables	33 494 989	34 267 475	27 918 564
Reserves total	1 657 579	1 668 637	2 050 180
Long-term payables	3 036 879	564 080	497 477
Short-term payables	4 063 818	8 605 360	3 847 195
Bank loans and borrowings total	24 736 713	23 429 398	21 523 712
Time diferentation	4 916 440	7 815 150	12 823 310

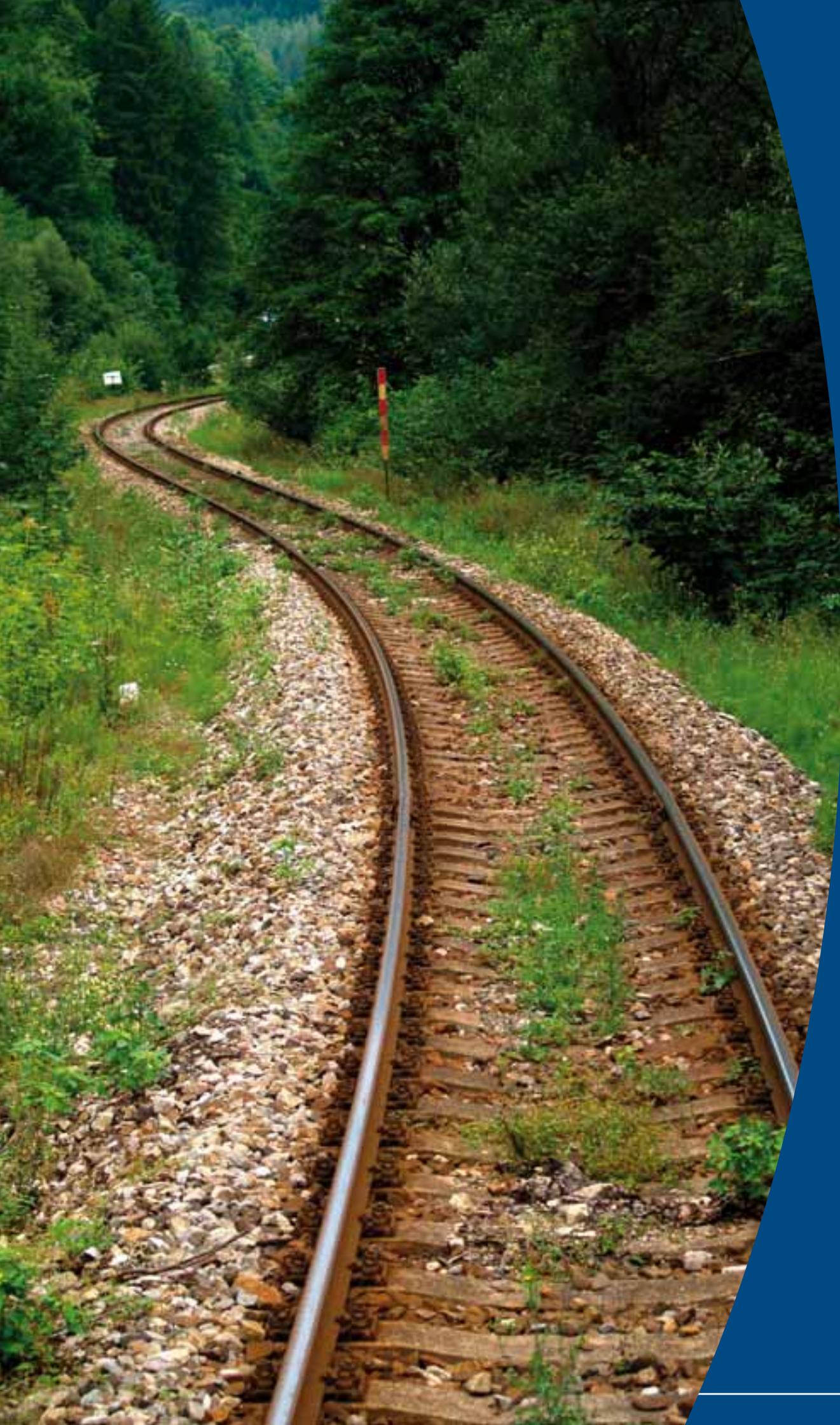


CASH FLOW STATEMENT

(with use of indirect method of cash flow stating)

		(SKK thous.)		
		2004	2005	2006
A.	Cash flows from operational activities			
Z/S	Profit/Loss for the period before income tax	-1 887 264	-829 340	10 781 067
A.1.	Non-cash operations A.1.1 to A.1.7	7 155 740	7 580 198	10 005 243
A.2.	Influence of changes of status of working capital, excluding the items being component parts of finance and financial equivalents	10 525 002	3 339 592	15 452 873
A*	Cash flow created in operating activities, excluding incomes and charges, which have to be stated at separate lines (sum of Z/S + A. 1. + A. 2.)	15 793 478	10 090 450	36 239 183
A.3	Interests adopted excluding the interests, which shall be included into the investment activities	31 243	30 919	54 900
A.4	Charges for interests paid, excluding charges, which shall be included into financial activities	-1 729 364	-1 491 052	-2 028 167
A**	Cash flow created in operating activities before cash flow of income tax of an accounting unit and cash flow from extraordinary activity (sum of A* + A. 3.+ A. 4.)	14 095 357	8 630 317	34 265 916
A.5	Charges for income tax of the accounting unit (including charges for settlement of additional assessments and income from overpayment return), excluding the charges which shall be specifically included into invest. or financial activities)			
A.6	Incomes of extraordinary nature relating to operating activities	3 435 077	548 805	121
A.7	Charges of extraordinary nature relating to operating charges	-660 665	-1 820	0
A***	Net cash flow from operating activities (sum of A**+ A. 5. to A. 7.)	16 869 769	9 177 302	34 266 037
B.	Cash flows from investment activities (IA)			
B.1	Change in fixed assets	-3 308 167	-6 814 394	-8 886 598
B.	Net cash flow from investment activities	-3 308 167	-6 814 394	-8 886 598
C.	Cash flows from financial activities			
C.1	Change in own capital	0	0	- 4 180 074
C.2	Change in long-term payables	-731 567	-2 472 799	-66 603
C.3	Change in bank loans and borrowings	-13 080 840	819 899	-20 905 723
C.	Net cash flow from financial activities	-13 812 407	-1 652 900	-25 152 400
D.	Net increase, or decrease of finance A***+B+C	-250 805	710 008	227 039
E.	PP (F) and PE (FE) at the beginning of accounting period (to 01/01)	397 089	146 284	856 292
F.	PP (F) and PE (FE) at the end of accounting period before exchange differences as of December 31	134 811	845 718	1 070 470
G.	Exchange differences to PP (F) and PE (FE) to a date, to which a balancing of books is made	11 473	10 573	12 861
H.	Balance of PP (F) and PE (FE) at the end of accounting period, adjusted by exchange differences calculated to the date to which the balancing of books is made	146 284	856 292	1 083 331





FINANCIAL INDICATORS OF THE LEVEL OF MANAGEMENT

(Slovak accounting standards)

	units	2004	2005	2006
Ratio indicators of liquidity				
Actual liquidity		0,06	0,07	0,04
Current liquidity		0,36	0,29	0,10
Total liquidity		0,41	0,33	0,12
Indicator of costs rate				
Costs rate	%	95,96	101,46	64,72
Wage and salaries demands	%	28,43	32,39	19,89
Indicators of indebtedness				
Coefficient of self-financing	%	45,32	45,78	59,46
Total indebtedness	%	54,68	54,22	40,54
Rate of indebtedness of equity	%	120,66	118,44	68,17
Indicators of labour productivity				
From revenues	SKK/emp.	1 045 960	980 424	1 686 411
From performances	train-km/emp	2 333	2 501	2 756
From added value	SKK/emp.	282 030	303 917	293 974
Indicators of activity - period of turnover				
of Inventories	deň	17,36	17,11	22,12
of Short-term trade receivables	deň	78,25	68,68	30,74



PROCUREMENT OF TANGIBLE AND INTANGIBLE INVESTMENTS

(Slovak accounting standards)

	(mil. of SKK)		
	2004	2005	2006
A. Sources total	3 629,4	6 211,6	8 391,5
Subsidies from State Budget	983,0	0	367,0
Own sources	1 210,2	1 862,5	1 819,0
Loans, issues	15,6	655,6	759,3
ISPA	830,2	1 607,9	1 233,4
Co-financing from SB to ISPA	590,4	1 817,6	1 796,4
European Regional Development Fund (ERDF)	0	201,0	1 056,0
Co-financing from SB to ERDF	0	67,0	352,0
Cohesion fund (CF)	0	0	724,8
Cofinancing from SB to KF	0	0	254,7
TEN-T	0	0	16,2
Co-financing from SB to TEN-T	0	0	12,7
B. Utilization total	3 629,4	6 211,6	8 391,5
B.1 Long-term tangible assets	3 615,6	6 168,7	8 333,0
Electrification of railways and pre-electrification adaptations	171,3	515,8	859,1
Telecommunication and radiofication of railways	132,8	158,4	73,5
Dispatching-establishment at tracks, interlocking equipment, universal automatic block (UAB)	99,3	230,8	204,5
Exchange stations	44,4	4,8	62,7
Modernization and reconstruction of railways	2 377,3	4 389,2	6 903,8
Buildings - residential and non-residential	747,8	685,1	58,6
Machines and equipment not included in the construction budget	42,7	184,6	170,8
B.2 Long-term intangible assets	13,8	42,9	58,5





RESEARCH AND DEVELOPMENT

FOR PROCUREMENT OF THE TASKS OF RESEARCH AND DEVELOPMENT THE FOLLOWING SOURCES WERE USED IN 2006:

Area	Amount (SKK thous.)
Passenger transport	
- costs for research	1 193
- costs for development	9 147
Freight transport	
- Research and development capitalised	581
- Research and development non-capitalised	2 802

The following tasks belong to the most important ones completed in 2006:

- Realization of equipment with a shunt speed preselection at impact tests.
- Realization of movable system for measuring of mass distribution on wheels and axles of vehicles.
- Realization of equipment for moisturizing of rail at brake tests.
- Realization of construction adaptation of primary suspension of measuring wagon.
- Methodic of corrosion measurements and criteria of protection against corrosion by dispersion currents.
- Update of TNŽ 01 3412-2 Digital documentation - drawing in of cables of communication and interlocking technics.
- Indication, evaluation, registration of flat-type wheels.
- Equipment for detection of transversal resistance of rail bed for the purpose of detection of status of contact-free rail.
- Unified procedure for implementation of conditions for fixed line at ŽSR.
- Equipment for detection of transversal resistance of rail bed for the purposes of detection of status of contact-free rail. Additional tasks solved the problems in the area of power engineering, testing, diagnostics and implementation of legislation of the EU and SR into the practice of ŽSR.



LONG-TERM FINANCIAL ASSETS

The structure of business shares and property participations of ŽSR as of December 31, 2006 is as it follows:

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



HUMAN RESOURCES

ŽSR EMPLOYED 18,118 EMPLOYEES, IN THE AVERAGE ADJUSTED NUMBERS, IN 2006.

The planned average registration adjusted number of employees according to the Business Plan of ŽSR for 2006 was 18,537. The actual achieved number was 18,118 and it is less by 419 employees in comparison with the plan. ŽSR noticed a reduction in registration numbers as of December 31, 2006 by 541 employees in comparison with 2005. According to the „Adaptation program of graduates of selected schools“ 73 graduates of secondary schools and colleges were engaged to ŽSR in 2006.

According to the Collective Agreement of ŽSR, the average wage in the amount of SKK 19,535 was achieved.

	2004	2005	2006
Employees of ŽSR total	20 970	19 663	18 118
Infrastructure	17 205	16 285	15 797
General Directorate	406	371	366
Other internal organizational units	3 359	3 007	1 955

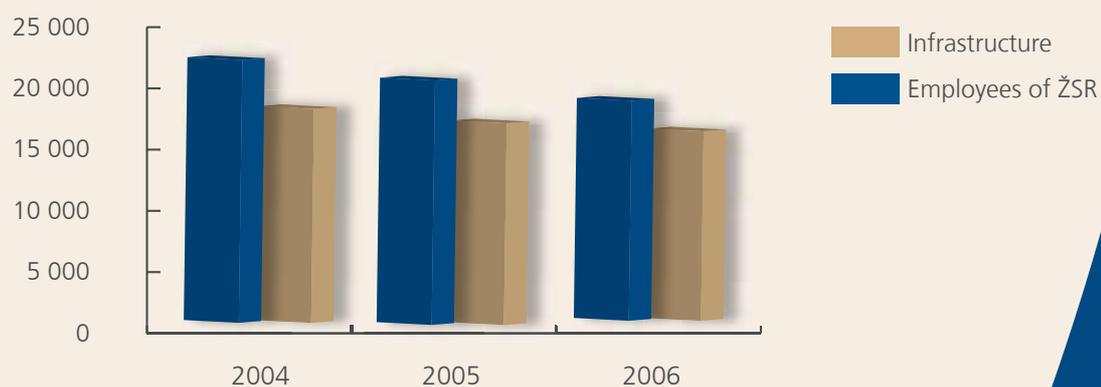




EMPLOYMENT RATE

Long-term trend of reduction of number of employees of ŽSR has an influence also to the employment rate of the Slovak Republic. The implemented internal labour market is used as an efficient tool of care about redundant employees. ŽSR engage 70 to 100 new graduates of selected schools every year within the adaptation program of graduates.

ŽSR execute 10 projects in the area of development of human resources co financed by the European Social Fund.





LABOUR PROTECTION

On-the-job accidents

Number of employees	2004	2005	2006*	Index	
				2005/2004	2006/2005
Fatal on-the-job accidents	0	1	0	0,000	0,000
Heavy bodily harm	1	1	1	1,000	1,000
Incapacity for work for 42 days and more	-	-	11	-	-
Other on-the-job accidents	78	80	72	1,026	0,900
On-the-job accidents, total	79	82	84	1,038	1,024

* The Act No. 124/2006 Z. z. came in force from July 1, 2006. The problems related to on the job accidents, other injuries, job-related illnesses and dangerous events is handled in the Article 17 of the new Act No. 124/2006 Z. z. In the table, the types of registered on the job accidents still according to the new act are given, a classification of sever on the job accidents to fatal ones, severe health detriments and on the job accidents at which the incapacity for work was 42 days and more.

SAFETY

OF RAILWAY

TRANSPORT



Injury events in ŽSR network

	2004	2005	2006	Index	
				2005/2004	2006/2005
Number of injury events in ŽSR network	514	604	618	1,17	1,02
including:					
Heavy accidents (A)	96	128	122	1,34	0,95
Including : A5 category	95	112	111		
Accidents (B)	31	25	24	0,80	0,96
Including: B5 category	24	12	15		
Threat to operation and disruption of operation (C,D)	387	451	472	1,16	1,04
Accidents with ŽSR responsibility	126	131	149	1,03	1,13
Accidents with ZSSK Cargo responsibility	131	116	146	0,88	1,25
Accidents with ZSSK responsibility			60		
Accidents without own fault	251	186	125	0,74	0,67
Damage caused (SKK mil.)	21,8	36,6	52,4	1,67	1,43



INFLUENCE OF ŽSR OPERATION ON THE ENVIRONMENT



MEASURES FOR REDUCTION OF ADVERSE IMPACT OF OPERATION OF ŽSR ON THE ENVIRONMENT

From measures for reduction of adverse impact of ŽSR to living environment, it is possible to state especially the following ones:

- continuous full-area carrying system of dangerous waste in accordance with valid legislation on waste management,
- reconstruction of rock subsoil as a removal of old ecologic burden in the total volume of approx. 55,000 tons,
- reconstruction of underground water in Čierna nad Tisou and operation of hydraulic protection of water source Boťany, including needed monitoring,
- reconstruction of underground water in location of railway station Brezno, as a removal of the old ecological burden (oil substances in soils and free phase on the underground water level),
- disposal and subsequent biodegradation of dangerous waste, which arose after the reconstruction works and it was included into the category of dangerous waste according to the Act No. 223/2001 Z. z. on Wastes.

OVERVIEW OF ECOLOGICAL ACCIDENTS

During 2006, the following ecological accidents with the impact to the environment were noticed:

- January 9, 2006 - railway station Rožňava, where a leakage of approx. of 150 litres of motor oil into the rail base in the length of 500 meters due to technical failure of an engine of passenger train occurred,
- February 28, 2006 - railway station Sliač, where approx. 60 litres of diesel oil run out to rail base from unknown vehicle. The polluted base was transferred after digging out into a processing plant of specially qualified company for decontamination,
- Railway station Galanta - due to a technical failure on driving vehicle of ZSSK, 125 litres of transformer oil run out into the rail base,
- March 29, 2006 - railway station Belá nad Cirochou, as a consequence of a crash of road motor vehicle with passenger train set, the vehicle and train set were damaged and oil substances of a volume not exactly specified, run out into a rail base,
- June 21, 2006 - railway station Poltár, after a damage of a tank of driving vehicle as a consequence of derailment, approximately 150 litres of diesel oil run out into the rail base. The derailment was caused by a strange subject on the rail,
- June 23, 2006 - railway station Plešivec, a leakage of nitric acid,
- July 3, 2006 - railway station Banská Bystrica, approximately 100 litres of motor oil run out into a base after a technical failure of driving vehicle,
- August 4, 2006 - railway station Diviaky, approximately 25 litres of motor oil run out from an engine of ZSSK
- October 19, 2006, an unspecified volume of oil from driving vehicle run out into a base within a track section Jesenské - Slavec.

All the abovementioned accidental events were handled in cooperation with the appropriate authorities of state administration.

FEES FOR AIR POLLUTION

According to the legal obligation, a fee for air pollution by medium sources within the scope of action of ŽSR was accounted in the amount of SKK 326,300 for 2006, which is settled gradually in instalments, not later than on 15th day after a lapse of the relevant quarter upon a payment order.





IMPORTANT EVENTS

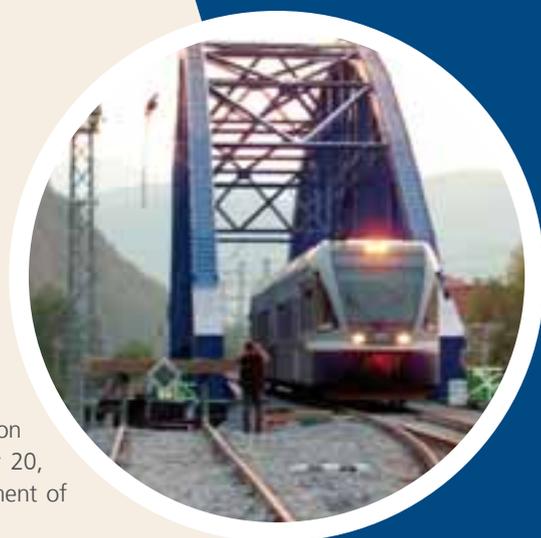
AFTER 2006

PROJECT COMPLETION OF REDESIGN OF SAP R/3

According to the project, the works on redesign of SAP R/3 shall be completed in March 2007. By a transition to higher version 5.00 ECC, a new basis for further development of functionality for the sphere of organization process management is created. The integration options of information systems within ŽSR got to a new technological level, as well as the cooperation and data exchange options with business partners of ŽSR are on the highest technological level. In 2007, the activities shall focus to precision of systems set, implementation of routine operation and preparation of transition of ŽSR to the application of international accounting standards and preparation to EURO conversion.

ASSUMPTION OF LOANS WITH STATE GUARANTEE INTO A STATE DEBT

All the loans with state guarantee shall pass into a state debt from January 1, 2007 on the basis of the Resolution of the Government of SR No. 1094/2006 from December 20, 2006, what means a fulfilment of basic intentions and measures of the plan of fulfilment of consolidation function adopted by the Government of SR in 2003.



MODERNIZATION OF RAILWAY INFRASTRUCTURE

In 2007, ŽSR will continue to prepare itself and to realize a modernization of railway infrastructure on the following tracks:

- Modernization of railway line Bratislava Rača - Trnava
- Modernization of railway line Trnava – Nové Mesto nad Váhom
- Modernization of railway line Púchov – Nové Mesto nad Váhom
- Modernization of railway line Žilina – Krásno nad Kysucou
- Modernization of railway junction Čierna nad Tisou
- Elektrification of track Zvolen – Banská Bystrica, completion in 2007
- Construction of platforms at railway station Prešov, completion in 2007
- Construction of underpasses and platforms at railway station Poprad - Tatry , completion in 2007
- Railway interconnection of corridors of the EU Bratislava with a direct connection of airport to railway network (TEN-T)

REGULATION OF INFRASTRUCTURE CHARGES

It is supposed, that the Office for regulation of railway transport shall issue a generally binding rule about a procedure at price regulation, according to the law. This rule shall be a starting point for a process of creation of a new concept of charging of railway infrastructure with application of new conditions in connection to a content and structure of a fee for use of railway infrastructure, with the aim to ensure a compatibility with Directive of EP 2001/14/EC and at the same time, a connection of system of regulation of the fee for use of railway infrastructure with endowment of the state according to the transport policy of the Slovak Republic.

STRATEGIC VISIONS

Strategic intentions of ŽSR are determined by external and internal trends in economic and legal environment of the member state of the European Union. The European Commission provides a considerable support to railway sector and railway companies may make plans with significant projects for the period of time between 2007 - 2013. New occasions for railway freight transport in developing economic sector of Slovakia are expected, especially in the sphere of industrial parks and automobile industry.

Liberalization of conditions on transport market is becoming an important impulse for an effort for higher flexibility and creation of competitiveness of ŽSR.

ŽSR as infrastructure manager has the following preferences defined, focused to:

- trade activities with a dominance of transport infrastructure trading.
- Organization and transport control
- Modernization of infrastructure for a support of trading orientation of the company and efficiency of the company.
- Continued transformation of ŽSR to a market-oriented subject under the conditions of controlled competition.

IT IS POSSIBLE TO ACHIEVE A PROVISION OF QUALITY INFRASTRUCTURE, REDUCTION OF DRIVE PERIODS, SAFETY, TRANSPORT ACCURACY AND MINIMIZATION OF COSTS OF INFRASTRUCTURE AND OPERATION OF ŽSR ON THE BASIS OF SUCCESSFUL IMPLEMENTATION OF THE FOLLOWING STEPS:

- Enforcement of full harmonization of legislation of the EU and SR in the sphere of legal position of ŽSR as a manager of railway infrastructure and arrangement of partner relations between the state and ŽSR in the sphere of financing of performances in the public interest.
- Maximization of trading potential of ŽSR by a flexible offer and efficiency of services, including proposals of a change of creation of prices of services of ŽSR.
- Creation of conditions for quick achieving of information of services provided by a development and application of information technologies.
- Creation of optimal solutions for utilization of trading with electric energy, telecommunication services, property and other additional services of ŽSR.
- Provision of interoperability, especially in a contact with other railway infrastructure companies.
- Provision of financial sources for development of ŽSR by utilization of state subsidies, cofinancing, drawing of the European Union funds and own sources.

ŽSR shall focus itself, at an of international shipping flows, to a solving of connections with neighboring railway administrations and relevant state administration, shifting the activities from border crossing stations into the existing train-formation stations.

Lines of ŽSR on the border with Ukraine shall be included into so called Schengen border with their specific regime. From the point of view of strategy and a prognosis of an increase of goods transport between the East and the West, the railway interconnection on the East are becoming the significant ones and the EU pays to this space a due attention. Čierna nad Tisou and Maťovce crossings have a strategic significance for ŽSR.

An infrastructure enabling faster connections with county towns has to be offered to traveling public.

The significant project becomes the railway connection Wien - Bratislava with a potential of an increase of passenger and freight transport within the euroregion Centropa and at the same time as a component part of the project TEN-T 17 Paris - Strassbourg - Stuttgart - Wien - Bratislava with execution by 2015. The project preparation has started but a complexity of acceptance of solutions within the territory of Bratislava is proving now.

The railway sector in Slovakia has to develop an effort integratedly, in order the designed freight network, so called Primary Freight Network prepared in CER and EC to be established also on ŽSR network.

In the area of combined transport, Ministry of Transport, Posts and Telecommunications of the Slovak Republic coordinates a process of preparation of studies of new public intermodal terminals, where as the first construction is designed Žilina Teplička and ŽSR is to act in the role of investor and administrator.

The liberalization of transport market faces ŽSR with a task to minimize limitations creating obstacles for entry of foreign carriers in ŽSR network. Solutions resulting from technical specifications for interoperability and new technologies (ETCS, GSM-R) have to be implemented within the given time horizons within the framework of Implementation strategy ERTMS in ŽSR network by 2013.



The aim of design of regional transport is a support of harmonization of transport in particular regions, which can take over a significant role in organization of regional transport.

Additional liberalization measures are specified for railway companies in the sphere of railway legislation. ŽSR monitors this legislation process and implements the recommendations in accordance with the national legislation.

Participation of ŽSR in significant international associations such as UIC, CER, OSŽD, EHK-OSN-TER, G4, V4, RNE and other, enables ŽSR to monitor strategic trends and to implement results into the company environment. A position of railways in the European transport market is analyzed through the EU studies – Trend, Reorient, and UIC ERIM.

Despite significant amount of investment means from the Cohesion Fund for modernization of corridors of ŽSR for years 2007 - 2013, there are risks of a postponement of implementation of several technological projects beyond this horizon.

The progress of modernization of the corridor No. V and putting the new infrastructure constructions into operation create assumptions that ŽSR shall fulfil efficiently its mission.



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 2006, which comprise the balance sheet as of 31 December 2006, the 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 2006 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. Based on the Decision of the Ministry of Transport, Post, and Telecommunications No. 180 of 8 November 2006, share capital has been increased by SKK 2.4 billion in the form of a non-monetary contribution of state receivables.
2. During the audited period, ŽSR received a legally valid decision of the Social Insurance Company on the waiver of penalties amounting to SKK 6.4 billion. The recognition of this amount has a material influence on the amount of equity and the financial result for the current period.
3. The financial result has also been materially influenced by the recognition of liabilities to the National Property Fund for realized state guarantees in the amount of SKK 5.7 billion on the basis of the Finance Ministry of the Slovak Republic declaring these liabilities unrecoverable.
4. The accompanying accounting records have been prepared on the basis that ŽSR will continue as 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 financial assistance from the state and the acquisition of additional financial resources.

Bratislava, 31 March 2007

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831 03 Bratislava
Commercial register, file 18497/B
License SKAU 199



Ing. Jozefína Dražková
Responsible auditor
License SKAU 688





Železnice Slovenskej republiky

Independent auditors' report

To the Governing Board of Železnice Slovenskej republiky, Bratislava:

We have audited the accompanying balance sheet of Železnice Slovenskej republiky ("ŽSR" or "the Company") as of 31 December 2006, and the related statement of income, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2006, 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 following matter:

As stated in the Note 1 to the financial statements, for the year ended 31 December 2006 the Company reported a net profit of SKK 10 977 million (for the year ended 31 December 2005: net loss of SKK 297 million) and its current liabilities exceeded its current assets by SKK 21 429 million at the balance sheet date (at 31 December 2005 current liabilities exceeded current assets by SKK 13 219 million) in relation with realisation of the Slovak Government Decision No. 1094/2006 – as stated in the Notes 10 and 16. The Company's ability to continue as a going concern and to fulfil its investment program and other operating and financial commitments remains dependant upon continued State support in the form of capital and operational subsidies. Further, as disclosed in Note 1 to the financial statements, the Company does not own any of the tangible fixed assets that it administers. These are owned exclusively by the Slovak Republic, which entrusts them to ŽSR.

Solidita, LTD.
Solidita, LTD.

Bratislava, 12 April 2007





Rating Action: Zeleznice Slovenskej republiky

Moody's assigns A1 long-term issuer rating to Zeleznice Slovenskej republiky

Prague, May 29, 2007 -- Moody's Investors Service today assigned an A1 long-term issuer rating to the Slovak railway infrastructure administrator, Zeleznice Slovenskej republiky („ZSR“). It also affirmed the company's Aaa.sk long-term national scale rating. In accordance with Moody's rating methodology for government-related issuers („GRIs“), ZSR's A1 ratings primarily reflect the high expectation of support for the company from the Slovak Republic in case of need. The rating outlook is stable.

Moody's bases its high expectation of support on: (i) the fact that ZSR had discharged nearly all of its debt at the start of 2007; (ii) the special legal status of ZSR as a fully government-controlled entity; (iii) the strategic importance of a functioning rail infrastructure for the economy of Slovakia; (iv) the strong political consensus with regard to the public character of ZSR; and (v) the government's ongoing investment in renewal, maintenance and operation of the railway infrastructure, which the state owns.

The ratings also take account of Moody's assessment of a high degree of default dependence between the government and ZSR, reflecting the geographic focus of ZSR's activities in Slovakia and the high correlation with domestic economic activity, as well as the importance of a functioning rail infrastructure to the country's economy, which is also required under EU guidelines. In addition, Moody's notes the dependence of ZSR's credit profile on the operating framework set by the Slovak government. On the other hand, following the investment into Trans-European-(Rail-) Network (TEN), ZSR's reliance on domestic traffic may decline with the expected increase in transit business, reflecting Slovakia's favourable geographic position as a border country between EU and non-EU states. This integration of the infrastructure into the European economy and trade-flow partially reduces ZSR's otherwise close integration with and dependence on the Slovak Republic.

The company's Baseline Credit Assessment of 10 (on a scale of 1 to 21, where 1 represents the lowest credit risk) positively reflects: (i) the company's low business risk profile as Slovakia's monopolistic infrastructure owner; (ii) the stable revenue streams resulting from track access charges and traction electricity sales; and (iii) the low debt as the result of the government's takeover of debt (which was benign to ZSR as it was effectively serviced and guaranteed by the state) from ZSR's balance sheet in the amount of SKK19.9 billion (EUR580 million) during the first half of 2007. However, the Baseline Credit Assessment also takes into account: (i) the reliance on state contributions to cover a substantial proportion of maintenance costs and personnel expenses; (ii) the potential for losses as a result of rising costs for maintenance of the rail network and management incentives which remain uncompensated by the state and may have to be funded by new debt; (iii) the short visibility of regulatory support given that operating and investment budgets cover only one year; and (iv) competition from the public road system and decreasing traffic volume in recent periods. With regard to regulatory charges for freight transportation, Slovakia is one of the more expensive countries in Europe. Although the Slovak government is considering increasing ZSR's competitiveness by adjusting freight charges, a final decision has not yet been taken.

ZSR was formed in 1993 in accordance with Railways Act No. 258/93 Coll., as a legal successor to the state enterprise following the separation of the Czech and Slovak Federative Republics and subsequent division of the Czechoslovak State Railways into two entities. Following the transformation process of ZSR, in 2002 it was separated into the railway operating company, Zeleznicna spolocnost, a.s. („ZS“ or the „Railway Company“), dealing with rail passenger and rail freight activities, and the infrastructure manager ZSR, responsible for the management, operation and maintenance of the railway network and related services. At the beginning of 2005, the transformation was completed, with the railway operating company ZS being split into two companies: Zeleznicna spolocnost Slovensko, a.s. (ZSSK), the rail passenger operator, and Zeleznicna spolocnost Cargo Slovakia, a.s. (ZSSK CARGO), the rail freight operator. ZS and ZSSK CARGO are fully owned by the Slovak government and together generate more than 90% of ZSR's revenues from fees paid by railway operators for the use of the network.

ZSR is responsible especially for: (i) administration and operation of the rail road network; (ii) the provision of railroad network services; and (iii) construction and maintenance of railroads in Slovakia. ZSR supplies traffic and transport services on the railroad network corresponding to requirements of Slovak government.

ZSR is the railway infrastructure manager of Slovakia. In 2000 the Slovak government approved the „Slovak Railways Transformation and Restructuring Project“. ZSR reported assets of SKK69 billion (EUR2.05 billion) at end-2006 and is headquartered in Bratislava, Slovakia.

Frankfurt
Wolfgang Draack





INCOME STATEMENT

According to the international standards for financial reporting as of December 31, 2006

	(in millions of SKK)	
	2005	2006
Revenue		
Fees for tracks	6 940	6 728
Provision of services	1 590	1 314
State subsidies	3 600	3 452
Debts forgiveness	525	6 429
Other revenues	275	1 855
Revenues total	12 930	19 778
Operating expenses		
Material and raw materials	849	899
Energy expenses	529	522
Repairs and maintenance	520	490
Staff costs	6 244	6 078
Depreciation and amortization	3 208	2 581
Other operating expenses, net	703	1 016
Operating expenses, total	12 053	11 586
Profit from operating activities	877	8 192
Financial revenues / (expenses)		
Financial revenues / (expenses), net	(1 174)	2 785
Net profit / (loss)	(297)	10 977

For better understanding of the financial situation of the company as of December 31, 2006 and its net income and cash flows for 2006, it is needed to consider the financial information given in the annual report in connection with the relevant audited balancing of books.

BALANCE SHEET

According to the international standards for financial reporting as of December 31, 2006

	in millions of SKK	
	2005 (adjusted)	2006
ASSETS		
FIXED ASSETS		
Tangible assets	59 205	65 241
Intangible assets, net	66	104
Other financial assets, net	37	67
Fixed assets, total	59 308	65 412
CURRENT ASSETS		
Inventory, net	495	616
Trade receivables and other receivables, net	2 540	1 544
Cash and cash equivalents	856	1 083
Current assets total	3 891	3 243
Assets total	63 199	68 655
EQUITY AND LIABILITIES		
EQUITY		
Paid in capital	20 889	22 906
Capital funds	12 226	12 479
Statutory reserve fund	636	636
Accumulated losses	(19 551)	(8 574)
Equity total	14 200	27 447
Provisions	1 233	1 618
Non-current liabilities		
Loans and borrowings	22 508	1 602
State subsidies and the EU subsidies	7 584	12 819
Other non-current liabilities	564	497
Long term payables total	30 656	14 918
Short term payables		
Short term part of long term loans	3 060	19 922
Payables and time differentiation	7 420	4 564
Payables towards health and social institutions	6 630	186
Current liabilities total	17 110	24 672
Equity and liabilities total	63 199	68 655

For better understanding of the financial situation of the company as of December 31, 2006 and its net income and cash flows for 2006, it is needed to consider the financial information given in the annual report in connection with the relevant audited balancing of books.

