

2008 **ANNUAL** **REPORT**

*of the Railways of the Slovak
Republic*

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FOREWORD OF THE DIRECTOR GENERAL

Dear colleagues, business partners, dear friends – railwaymen,

I have the honour of submitting to you the Annual Report of the Railways of the Slovak Republic (ŽSR) for 2008, a year which was historically exceptional for ŽSR, but at the same time one of the hardest within the existence of the Slovak republic. Throughout those 365 days we have had on our mind that the railways on the territory of Slovakia have been existing - in various forms, modifications, successes or problems - for remarkable and jubilee 160 years. In the name of 160th anniversary many important events were held – whether historic, such as Rendez 2008, steam locomotives rendezvous in Bratislava, Grand prix – steam locomotives racing in Zvolen, as well as the Railwaymen Day and events connected with the opening of several new-constructed or upgraded sections of Slovak railway network integrated within the European railway corridor. The end of the year had brought the challenge in terms of finishing preparations for adopting the euro currency in Slovakia as well as economic crisis that will be affecting ŽSR in 2009.

Globally 2008 I can evaluate as a successful year what is the result of quality conceptual work with the respect for achieving the common goal and trying to keep the railways at stable level. Thanks to flexibility, willingness and comprehension of all persons involved, each phase of fulfilling of this goal, despite of hard conditions, was managed successfully.

The total costs in the period from January to December 2008 amounted to SKK 16,240,917 thousand which is a figure higher by SKK 65,966 thousand as compared to the plan. The profit in the period of January – December 2008 totalled SKK 15,138,814 thousand, which presents an increase of SKK 235,956 thousand as compared to the plan. In 2008 ŽSR had an average of 17,724 employees. In accordance with the Collective Agreement of ŽSR the average salary amounted to SKK 22,098.

The main deficiency of current railway infrastructure in Slovakia is a low level of ground speed, mainly on that part of the network which was incorporated into European infrastructure. Therefore upgrading of railway network was a key process with influential importance for existence, progress and perspective of ŽSR in 2008. In the east of Slovakia it was successfully managed to upgrade the section Kuzmice - Kalša - Slanec in a very short time and in heavy natural conditions, including the delivery of converter station in Kuzmice. The west of Slovakia can show off completely upgraded section from Bratislava to Nové Mesto nad Váhom. Veľká Lomnica has modern station since November and in Kysuce region the works on upgrading section Žilina – Krásno has been launched. It has been realized partial by European Union financing, by coordinating of all constituents – investor, project engineers, suppliers and constructor. The result should be perceived not only by railwaymen, but primarily by the travelling public. Slovakia is a big step forward to its ambition of being an obvious part of integrated European railway network.

From the ŽSR point of view, even in context of the Slovak republic 2008 can be labelled as the breakthrough year. New ŽSR functioning system was launched into verification service and realized in the terms of transforming to new currency. The meaningful change was implementation of International standards for finance accounting. Generally I can point out that by maximal dedication of those involved in these processes we had gone through all these changes successfully.

It is indisputable that railway transportation has had a huge potential and perspective in Slovakia thanks to its geographical position and it is also in a spotlight of foreign business partners interested in carrying goods in the direction of north – south as well as in the direction of east – west. Year 2008 had brought a great progress in negotiations with eastern partners to take advantage of its strategic location. Slovakia has had an opportunity to increase the effectiveness of the railway transport, routes and also specific products. Within international activities I would like to highlight the meeting with Director General of UNIFE Michael Clauseckerr and Executive director of CER Johannes Ludewig. The topic of negotiation was cooperation on the Ministry level, cooperation of ŽSR with CER including specialized topics, such as internalization of external costs in fixation of prices in infrastructure, state relations and international relations.

Let me now express my sincere gratitude to all my colleagues, railwaymen, for their good work, proper cooperation, fulfilment of their tasks and serious attitude to solving arising problems. I wish to all railwaymen the trust and confidence that together we could overcome more difficult period, great challenges and even barriers.

My best regards

Ing. Štefan Hlinka
Director General of ŽSR

COMPANY PROFILE

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

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

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

The scope of business of ŽSR is as follows:

a) Core business

1. management of railway lines and funicular lines under a specific regulation,
2. activities related to management of railway and funicular lines:
 - 2.1. establishment and operation of railway telecommunication and radio networks,
 - 2.2. construction, modification and maintenance of railway lines and funicular lines including environmental facilities,
 - 2.3. maintenance and repairs of transport vehicles, production, maintenance and repairs of special machinery, equipment and materials including inspections and diagnostics,
 - 2.4. provision of services in catering, accommodation and cultural facilities,
 - 2.5. property leasing,
 - 2.6. automated data processing and transmission,
 - 2.7. metrological services and defectoscopy, diagnostics and measuring of physical quantities, geodetic and cartographic activities,
 - 2.8. tasks of the chief expert standardisation centre for railway transport,
 - 2.9. manufacturing, assembling, repairs and reconstruction of electric and electronic equipment including inspections and diagnostics,
 - 2.10. transshipment of goods, re-tying of rolling stock and change of transport modifications of transported goods during change of rail gauge,
 - 2.11. provision of special health-care services for selected professions,
3. operation of rail transport for the purposes of:
 - 3.1. construction, modification and maintenance of railway and funicular lines,
 - 3.2. provision of manipulation services, attendance transport services for railway undertakings.

b) Other business activities as entered in the Commercial Register:

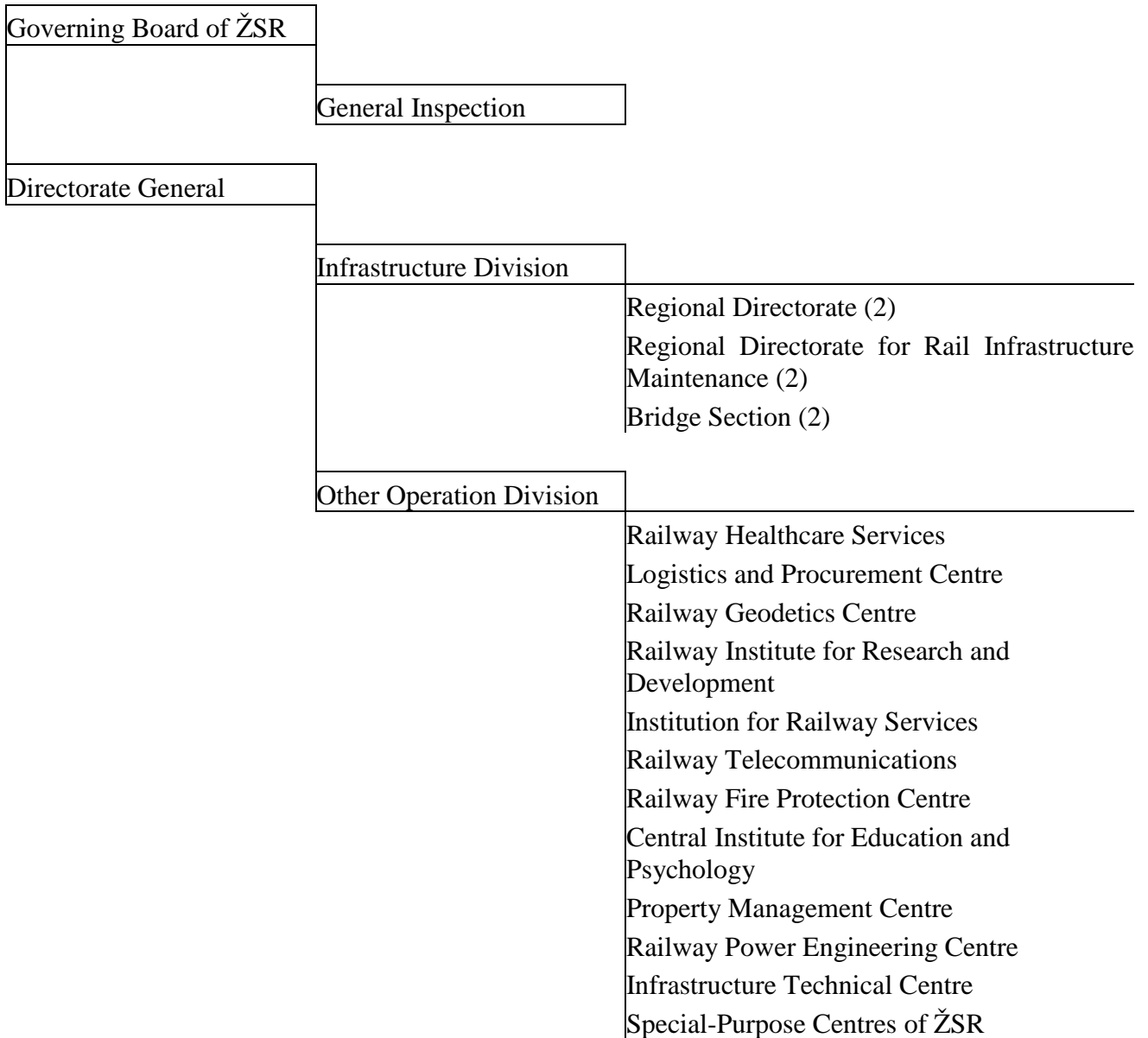
1. projecting and designing in capital construction,
2. engineering activities,
3. advertising and promotional activities,
4. copying and photographic activities,
5. organisation of educational and training activities,

6. testing of professional aptitudes of employees of railway and funicular lines managers and employees of railways undertakings operating on rail and special lines, and issuing certificates on professional qualification,
7. verification of psychological capability of employees of rail and special lines managers and employees of railway undertakings operating on rail and special lines, and issuing certificates on psychological aptitude,
8. psychological services of a non-clinical nature,
9. travel agency services,
10. medical and preventive health care,
11. purchase of goods for purposes of its sale to other sole traders (wholesale),
12. purchase of goods for purposes of its sale to the final consumer (retail trade),
13. mediating activities,
14. heat generation, electricity and heat distribution,
15. testing of rolling stock for rail and special infrastructure,
16. establishment and management of public telecommunication network and provision of public telecommunication services,
17. accounting consultants' services,
18. bookkeeping,
19. sale of software products – ready-made programmes based on a contract with the author,
20. advisory and consultancy services in the field of hardware and software,
21. training of young people for their profession and related activities,
22. research and development activities regarding construction and management of all lines,
23. research and development activities regarding transport operation on all lines,
24. maintenance, exhibition and display of historical rolling stock for rail and special lines, including track machinery and special equipment,
25. passenger transport operation in nostalgic trains on rail and special lines,
26. inspections of selected technical compressive equipment,
27. inspection, revision and testing of selected technical gas equipment,
28. inspection, revision and testing of machinery parts of lifting equipment,
29. electricity supply and distribution,
30. activities of a fire protection technician,
31. activities of a fire protection specialist,
32. automated data processing,
33. procurement of services related to administration of apartments and non-housing premises,
34. domestic freight road transport,
35. domestic irregular bus transport,
36. management of public sanitary facilities – toilettes,
37. cleaning services,
38. rent of road vehicles,
39. rent of construction machines and machinery,
40. demolition and earthwork,
41. handling of goods – reloading of burdens,
42. sewerage cleaning,

43. pipe laying with machinery,
44. scaffold works – assembly and dismantling,
45. concreting works,
46. painting works.

ORGANISATIONAL STRUCTURE

Organisational structure of ŽSR in 2008



In 2008 ŽSR had no independent organisational unit abroad.

GOVERNING BOARD

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

As of 31 December 2008 the members of the Governing Board of ŽSR were as follows:

Mgr. Juraj MRAVČÁK

Chairman of the Governing Board

Ing. Dušan ŠVANTNER

Vice-Chairman of the Governing Board

Ing. Milan CHÚPEK, PhD.

Member of the Governing Board

Ing. Pavol GALLO

Member of the Governing Board

Ing. Jaroslav MIKLA

Member of the Governing Board

Ing. Rudolf PECAR

Member of the Governing Board

Mgr. František PETROCI

Member of the Governing Board

Ing. Miloslav VADINA

Member of the Governing Board

František ZAPARANIK

Member of the Governing Board

BOARD OF DIRECTORS

Composition as of 31 December 2008

Ing. Štefan HLINKA

Director General of ŽSR

Ing. Jozef ANTOŠ

Deputy Director General for Operation

Ing. Igor FEDOR

Deputy Director General for Development and IT

Ing. Dušan ŠEFČÍK

Deputy Director General for Economy

Ing. Vladimír JARÚNEK

Deputy Director General for Human Resources

IMPORTANT EVENTS IN 2008

NEW ECONOMIC MANAGEMENT MODEL IN ŽSR

Redesign SAP R/3 Project

During the year 2008 it was continued to elaborate settings of SAP modules in upgrade version 5.00 ECC implemented in 2007.

International standards of finance reporting

Application of International standards of finance reporting following § 17a, Art. 1 Act no. 431/2002 on accounting.

Preparing the change of the investment process organization as well as the process of creating ZSR strategy and expertise process

Inception of the project is prepared and approved with a consecutive implementation.

Project of new railway stations categorization system

The result of this project was solution of new railway stations categorization system, solution of its organizational structures and changes in classifying of selected railway stations employees into tariff classes.

RAIL INFRASTRUCTURE MODERNISATION

In 2008 investments totalling SKK 6,035.448 million focused mainly on rail infrastructure modernisation. The investments were financed from the EU resources (SKK 695.465 million), from co-financing budget complementing the EU funds (SKK 352.406 million), from bank loans (SKK 1,420.083 million), from state subsidies allocated from the state budget (SKK 1,508.058 million) and from own resources (SKK 2,059.495 million). The investment priority of 2008 was to complete:

Trnava - Nové Mesto n/Váhom, line modernization, which was one of the major transport investments of Slovakia amounting to more than SKK 2,010 million. This investment was financed from the EU structural funds as well as from the state budget.

The ground speed has been increased on the new build section; it is safer in term of rail passenger and rail freight transport as well as to avoid a road traffic collision. It is less demanding on the environment. Another substantial benefit of the line is a more effective use of rail infrastructure capacity.

Platform construction in the railway station of Poprad-Tatry – construction has been finished and delivered into usage. Safety and comfort of services for travelling public has been increased as well as fluency and safety of rail transportation itself. Investment is amounting to SKK 878 mil.

Similar construction - **Platform construction in the railway station of Prešov** has been finished in total amount of SKK 638 mil.

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

- Modernisation of the rail line between Bratislava Rača and Trnava,
- Modernisation of the rail line between Trnava and Nové Mesto nad Váhom,
- Modernisation of the rail line between Nové Mesto nad Váhom and Púchov,
- Modernisation of the marshalling yard in Teplička pri Žiline,
- Modernisation of the rail line between Žilina and Krásno nad Kysucou,
- Modernization of the interlocking plant – Kysak,
- Modernization of the teleinformational network – MOTIS 2,
- Railway connection of the EU corridors in Bratislava by a direct inter-connection of the airport to the rail network (TEN-T project).

PERSONNEL CHANGE

Designation of Ing. Štefan Hlinka as Director General of ŽSR since 09 April 2008.

INTERNATIONAL LEVEL NEGOTIATIONS

On 23 April 2008 the meeting of Director General of ŽSR with Director General of UNIFE Michael Clauseckerr was held. UNIFE is the association of the European rail industry based in Brussels. Its members are leading European companies including system integrators, infrastructural, subsystem and components suppliers.

On 29 April 2008 CER (Community of European Railways) executive manager Johannes Ludwig negotiated in Slovakia on key topics about cooperation on Ministry level, ŽSR – CER cooperation, including specialized topics, such as internalization of external costs.

On 30 April 2008 coordination negotiation of ÖBB and ŽSR was held on project TEN-T17 where technical infrastructure parameters of Austrian and Slovak railways were clarified. Within the project it is anticipated the railway connection of the airport to the rail network, railway connection of the corridors Bratislava predmestie – Bratislava filiálka and Bratislava Petržalka as well as doubling of the track between Bratislava Petržalka and Slovak – Austrian border.

On 24 - 25 September 2008 the President of Russian Railways Vladimir Yakunin negotiated in Slovakia, he met with Minister of Transport, Post and Telecommunications Ľubomir Vážny and with both Director General of ŽSR Štefan Hlinka and Director General of ZSSK CARGO Matej Augustín. They discussed about construction of broad-gauge line via Slovakia to Austria and signed the general agreement on cooperation and mutual support at a top-level.

RATING

Moody's Investors Service again assigned an A1 long-term issuer rating to the Slovak railway infrastructure manager – ŽSR. It also affirmed company's Aaa.sk long-term national scale rating. On 19 June 2008 this rating evaluation was passed to Director General of ZSR. Moody's Investors Service actualized rating on 30 March 2009 with A1/Aaa.sk values remained.

PROGRESS REPORT

INFRASTRUCTURE

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

Parameter/ Year	2006	2007	2008	Index	
				2007/2006	2008/2007
RAILWAY LINES AND STRUCTURES					
Construction length of managed lines (in km)*	3,658	3,629	3,623	0.992	0.998
Of which:					
Total construction length of managed lines (in km)**	3,658	3,629	3,592	0.992	0.990
Of which:					
Single-track lines	2,639	2,610	2,608	0.989	0.999
Double and multiple-track lines	1,019	1,019	1,015	1.000	0.996
Of which: Broad-gauge lines	99	99	99	1.000	1.000
Normal-gauge lines	3,509	3,480	3,473	0.992	0.998
Narrow-gauge lines	50	50	50	1.000	1.000
Of which: Non-electrified	2,081	2,051	2,046	0.986	0.998
Electrified	1,577	1,578	1,577	1.001	0.999
of which:					
Electrified AC 25000 V/50 Hz	758	759	761	1.001	1.003
DC 3000 V (others)	819	819	816	1.000	0.996
Total construction length of tracks (km)	6,867	6,831	6,870	0.995	1.006
Of which:					
- main tracks	4,674	4,645	4,638	0.994	0.998
- other station tracks	2,193	2,186	2,232	0.997	1.021
Number of switches	8,717	8,657	8,544	0.993	0.987
Number of switch units	9,710	9,627	9,483	0.991	0.985
Number of bridges	2,287	2,282	2,282	0.998	1.000
- steel	493	456	456	0.925	1.000
- solid	1,794	1,826	1,826	1.018	1.000
Total length of bridges (m)	46,240	50,282	50,282	1.087	1.000
Number of tunnels	76	75	75	0.987	1.000
- single-track	69	68	68	0.986	1.000
- double-track	7	7	7	1.000	1.000
Total length of tunnels (m)	43,389	43,229	43,229	0.996	1.000
Railway level crossings	2,322	2,307	2 265	0.994	0.982

Parameter/ Year	2006	2007	2008	Index	
				2007/2006	2008/2007
SAFETY INSTALLATIONS					
<i>Track safety installations</i>					
Automatic block (km)	564	564	670	1.000	1.188
- one directional	129	129	129	1.000	1.000
- bi-directional	435	435	541	1.000	1.244
Automatic block system (km)	411	411	512	1.000	1.246
Semi -automatic block (km)	736	736	762	1.000	1.035
- relay	593	593	624	1.000	1.052
- block	143	143	138	1.000	0.965
Lines with telephone communication system	1,697	1,533	1,620	0.903	1.057
<i>Station safety installations</i>					
Operating posts with mechanic interlocking	234	234	159	1.000	0.679
Operating posts with electro-mechanic interlocking	101	96	77	0.950	0.802
Operating posts with relay interlocking	129	123	151	0.953	1.228
Operating posts with hybrid interlocking	25	25	75	1,000	3,000
Operating posts with electronic interlocking	8	17	19	2.125	1.118
Interlocking with remote control (operated by a dispatcher) (km)	95	259	252	2.726	0.973
<i>Train safety installations</i>					
Tracks with info. transmission to train installation (km)	564	564	670	1.000	1.188
<i>Level-crossing safety installations</i>					
Unprotected level crossings (no.)	1,062	1,222	1,163	1.151	0.952
Protected level crossings (no.)	987	1,085	1,102	1.099	1.016
- mechanical barriers***	91	123	103	1.352	0.837
- safety installations with light signalling	896	962	999	1.074	1.038
<i>Hump safety installations</i>					
Rail brakes (no.)	93	93	94	1.000	1.011
Mechanised humps (no.)	8	8	6	1.000	0.750
Semi-automated humps (no.)	0	0	1	1.000	-
Automated humps (no.)	1	1	2	1.000	2.000
Compressor station (no.)					
- packaged three-dimensional (mobile)	9	9	1	1.000	0.111
- packaged spiral (mobile)	2	2	2	1.000	1.000
- stationary (hall)	12	12	2	1.000	0.167

*1 The Decision of the MTPT no. 105411/2007-SŽDD of 3 May 2007 cancelled the line of Rimavská Sobota – Poltár with the total length of 29,522 km.

2 The Decision of the MTPT no. 101025/2008-SŽDD/z.14325 of 25 March 2008 cancelled the line of branching-off Devínske Jazero – Stupava with the total length of 6,575 km.

** Holded service on following lines: Komárno – Kolárovo km 25,908; Žabokrečká junction km 1,278; Turňa nad Bodvou – MÁV km 3,139; the total length: km 30,125.

*** Including of 13 permanently locked

SERVICES OF RAILWAY UNDERTAKINGS

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

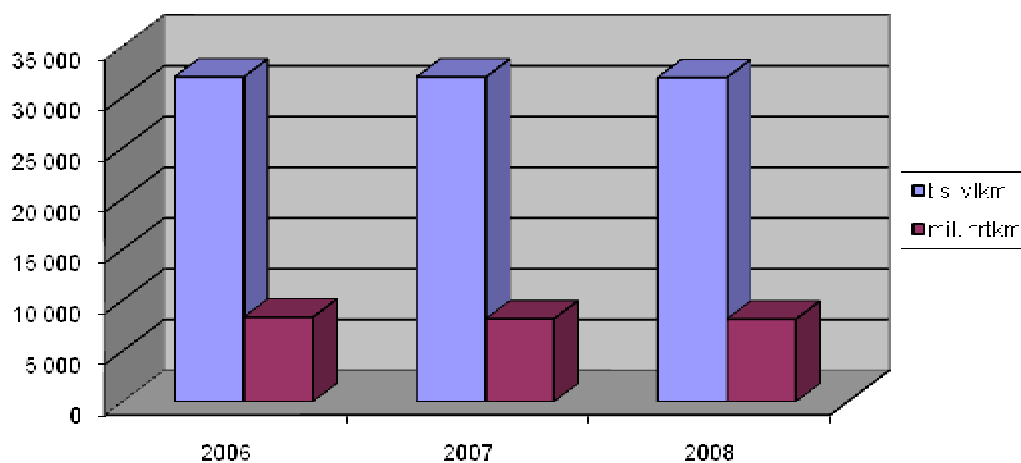
PASSENGER TRANSPORT

Volume /period	2006	2007	2008
Total (thousand train-km)	31,977	31,958	31,917
Total (million gross tonnes-km)	8,321	8,158	8,129

Passenger transport in 2008 by train type

Train type:		thousand gross tonnes-km	train-km
Eurocity, Intercity	(EC, IC)	928,031	1,885,668
Supercity	(SC)	24,097	52,043
Express train	(Ex)	335,935	815,030
Regional Express	(REx)	35,229	165,366
Euro Regional	(ER)	29,613	116,658
Fast train	(R)	2,811,996	5,649,488
Local express train	(Zr)	471,596	1,690,590
Slow train	(Os)	3,429,378	21,068,278
Extra trains	(Mimos)	58	367
Train set	(Sv)	52,028	173,990
n0Special train	(OsOs)	8,334	23,609
Train set (recorded as FT)	(NDSv)	7	59
Train set – track closures	(SV closure)	3,118	15,612
Diesel light engine trains	(MRv)	0	527
Light engine trains, trials	(Rv, Rvsk)	0	253,159
Light engine trains during track	(Rvvyl)	0	4,889
Closures		0	1,008

Passenger transport



tis. vlkm - thous. train-km
mil. hrtkm – mil. gross-tkm

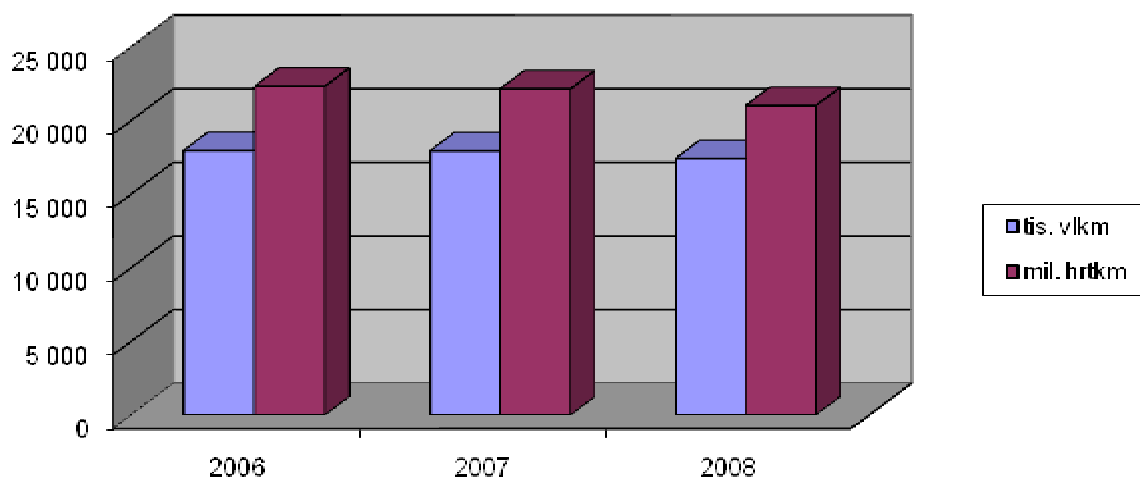
FREIGHT TRANSPORT

Volume /period	2006	2007	2008
Total (thousand train-km)	17,959	17,936	17,415
Total (million gross tonnes-km)	22,326	22,149	21,015

Freight transport in 2008 by train type

Train type:		thousand gross tonnes-km	train-km
Inter marshalling yard train	(Pn)	18,539,320	11,922,635
Short distance train	(Mn)	740,848	1,878,094
Special freight trains	(OsND)	0	0
Diesel light engine train	(MRv)	0	0
Freight express	(Nex)	751,927	729,927
Broad-gauge trains	(UZ)	154,198	65,440
Siding trains	(Vlec)	4,280	18,137
Light engine trains, trials	(Rv, Rvsk)	0	1,916,253

Freight transport



tis. vlkm - thous. train-km
 mil. hrtkm – mil. gross-tkm

PASSENGER TRAIN TIMETABLE FULFILMENT

Train type:	(in %)				
	Actual figures			Index	
	2006	2007	2008	2007/2006	2008/2007
International fast trains	87,42	85,72	89,73	0.981	1.047
Domestic fast trains	82,53	81,70	93,39	0.999	1.143
Slow trains	94,89	94,36	96,91	0.994	1.027
Total passenger transport	94,48	94,02	96,72	0.995	1.029

REVENUES FROM THE USE OF RAIL INFRASTRUCTURE

As of 1 January 2002 the main product of ŽSR has been sale of train paths on the managed rail infrastructure. Charges for train path allocation are subject to state regulation. In 2008 the revenues of ŽSR from the use of rail infrastructure amounted to SKK 5,859,796 thousand, which accounts for 62.7% of total revenues from own business and products, and 38.7% of total revenues.

In 2008, 25 railway undertakings provided their transport services on rail infrastructure. Two undertakings delivered passenger services and 23 undertakings operated freight transport services.

Revenues /period	(thousand SKK)		
	2006	2007	2008
Total, of which:	6,729,686	6,759,573	5,859,796
Železničná spoločnosť Slovensko, a.s.	1,561,000	1,767,581	1,568,391
Železničná spoločnosť Cargo Slovakia, a.s.	4,979,719	4,808,607	4,079,565
Other carriers, of which:	188,967	183,385	211,840
Passenger transport	45	35	6
Freight transport	188,922	183,350	211,834

BUSINESS RESULTS OF ŽSR
(according to Slovak accounting standards)

The year 2008 may be considered as a successful year for ŽSR. Planned business result of ŽSR was fulfilled as well as main quality indexes and safety of running and maintenance of nationwide and regional lines.

The Ministry of Transport, Posts and Telecommunications and ŽSR concluded a Contract on Rail Infrastructure Management for 2008. The Contract sets forth a fixed financial framework of the state compensation in the amount of SKK 4,100 million, in order to ensure operation, servicing and maintenance of nationwide and regional railway lines.

For reasons of stabilization of railway undertaking volume ŽSR were by budget measures of the Ministry of Finance of the Slovak republic (MF SR) no. 30/2008 assigned subsidies in order to provide special tariffs to operators in passenger and freight transport in the amount of SKK 1,200 mil.

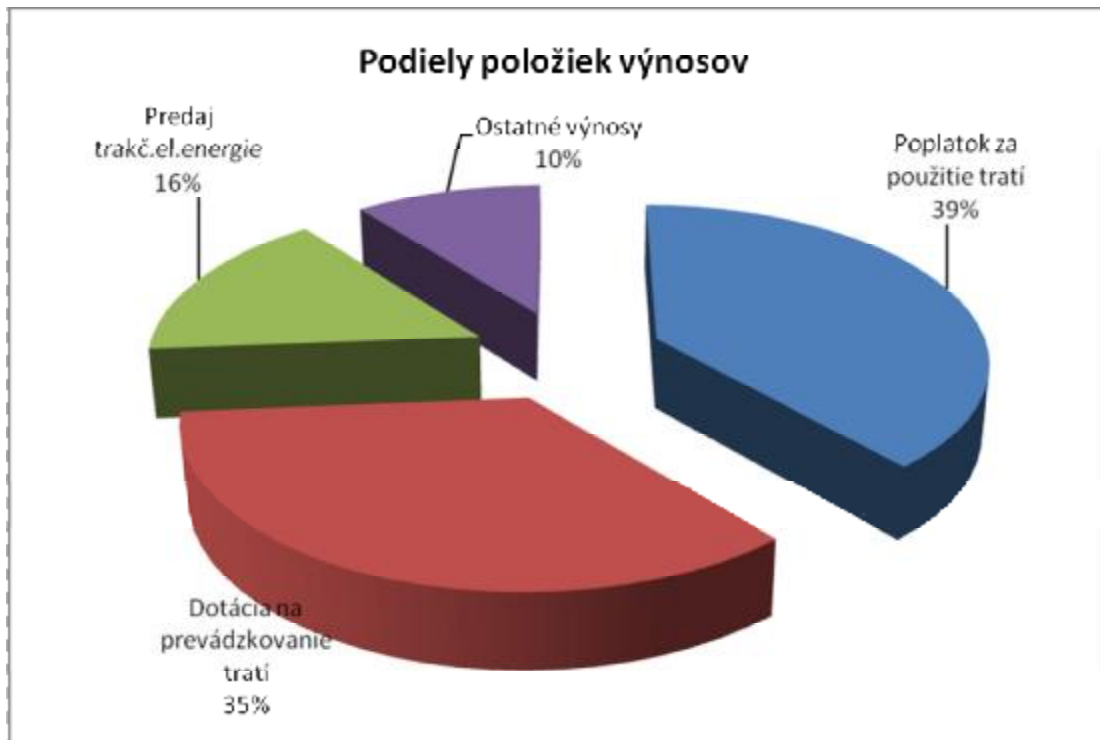
	(million SKK)		
	2006	2007	2008
Costs	14,592	15,287	16,240
Revenues	13,427	14,270	15,138
Profit/Loss	-1,165	-1,017	-1,102

In 2008 ŽSR achieved total revenues in the amount of SKK 15,138,814 thousand, of which:

- infrastructure fee - SKK 5,859,796 thousand (39%*),
- subsidy for lines operating - SKK 5,300,000 thousand (35%*), is composed of:
 - subsidy on loss coverage for lines operating – SKK 4,100,000 thousand ,
 - subsidy on fee coverage for lines operating – SKK 1,200,000 thousand,
- sales of traction electricity – SKK 2,384,335 thousand (16%*),
- other revenues – SKK 1,594,683 thousand (10%*).

*see the graph below

Shares of profit

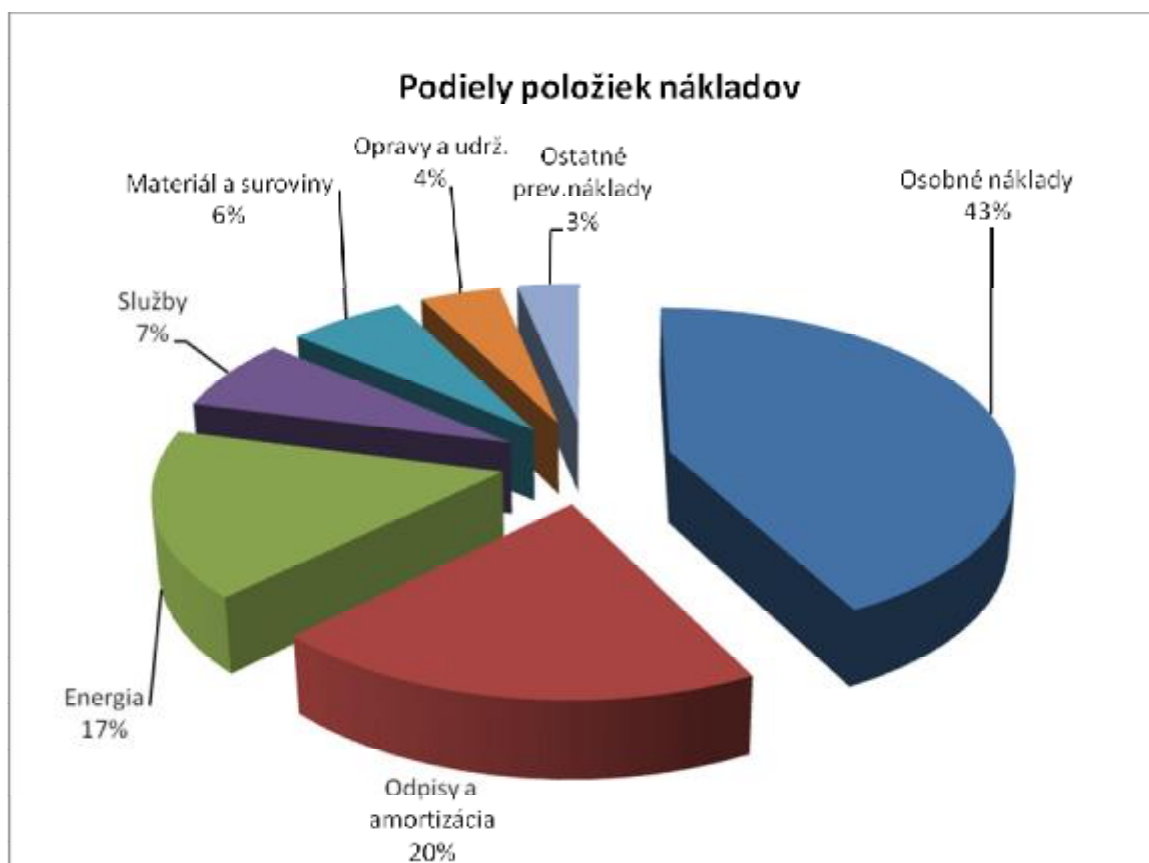


The costs in 2008 in the amount of 16,240,917 thousand were composed of:

- personnel costs amounting to SKK 6,894,706 thousand (43%*),
- depreciation and amortization after allowance dissolution of long-term assets in the amount of SKK 3,267,909 thousand (20%*),
- energy costs - SKK 2,668,939 thousand (17%*),
- received services - SKK 1,148,943 thousand (7%*),
- material and primary commodities - SKK 1,023,721 thousand (6%*),
- repairs and maintenance - SKK 701,548 thousand (4%*),
- other costs related to business activity in the amount of SKK 532,954 thousand (3%*).

*see the graph below

Shares of costs



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

The total loss from the core business in the amount of SKK 1,010,855 thousand was affected mainly by the loss from line operation as a result of starting economic crisis and the loss from lesser loss compensation arising from fee regulation for using the railway infrastructure.

CORE BUSINESS

(million SKK)

Operation and maintenance of lines, total:		2006	2007	2008
	Costs	12,261	12,649	13,337
	Revenues	7,991	7,534	7,026
	Fee compensation	0	0	1,200
	State compensation	3,452	3,600	4,100
	Profit/Loss	-818	-1,504	-1,011

Of which: **Contract on Rail Infrastructure Management**

(million SKK)

Operation and maintenance of lines, total:		2006	2007	2008
	Costs	10,906	11,318	12,297
	Revenues	7,267	7,242	6,838
	Fee compensation	0	0	1,200
	Loss compensation	3,452	3,600	4,100
	Profit/Loss	-187	-476	-159

Of which:

(million SKK)

Operation and maintenance of lines for:		2006	2007	2008
Passenger transport	Costs	3,284	3,390	3,683
	Revenues	1,726	1,913	1,860
	Fee compensation	0	0	200
	Loss compensation	1,471	1,305	1,486
	Profit/Loss	-87	-172	-137
Freight transport	Costs	7,622	7,928	8,613
	Revenues	5,541	5,329	4,977
	Fee compensation	0	0	1,000
	Loss compensation	1,981	2,295	2,614
	Profit/Loss	-100	-304	-22

PROPOSAL FOR BUSINESS RESULT SETTLEMENT

Within 2008 ŽSR had loss in the amount of SKK 1,102,102,541.05.

Mode of the loss settlement:

- loss of 2008 will be covered by undistributed profit of previous years

RISKS AND UNCERTAINTIES INFLUENCING THE BUSINESS RESULT OF ŽSR

- Solvency of the major transport operators on ŽSR network, financial conditions of ZSSK CARGO, which has already been influenced by financial crisis in 2008 (explained in more details in the notes to the 2008 Individual financial statements).
- Unbalanced arrangement of resources set forth in the Contract on Rail Infrastructure Management due to insufficient volume of funds in the public administration budget, and due to the set manner of mutual settlement of non-investment subsidy of the owner and manager of infrastructure.
- Limited resources to fund modernisation and development investments resulting in slow progress of modernisation, especially as regards corridors.
- The lack of financial means in the state budget to co-finance modernisation and development projects funded from the EU funds was solved in the form of a new investment loan for ŽSR in 2008 with assumed drawing of funds also in 2009.
- Insufficient use of the available rail path capacity due to low demand by undertakings with regard to preferences for road transport.
- Consecutive transport volume decrease of the rail freight operator ZSSK CARGO since half of the third quarter influenced by the beginning of the global economic crisis and its consequences will be fully shown in 2009.

PROFIT AND LOSS STATEMENT

(Slovak accounting standards)

Comparison with previous years

(thousand SKK)

	2006	2007	2008
REVENUES	(adjusted)		
Railway use fees	6,729,686	6,759,573	5,859,796
Donation on railway use	3,452,000	3,600,000	5,300,000
Traction energy sales	1,829,867	2,026,415	2,384,335
Un-traction energy sales	133,509	135,512	154,365
Informatics services sales	279,359	222,621	148,589
Telecommunication services sales	121,247	128,353	115,486
Revenues from property investments	305,690	302,505	280,884
Other sales	379,006	388,630	401,203
Activation	230,497	275,351	277,910
Other revenues	-	373,876	177,611
Exchange rate profit, net	-33,629	12,432	38,635
Revenues total	13,427,232	14,225,268	15,138,814
OPERATING COSTS			
Material and primary commodities	-910,869	-850,472	-1,023,721
Energy cost	-2,257,967	-2,487,767	-2,668,939
Repairs and maintenance	-489,502	-779,975	-701,548
Received services	-950,828	-1,074,003	-1,148,943
Personal costs	-6,080,894	-6,584,852	-6,894,706
Depreciation and amortization	-2,580,779	-2,970,339	-3,824,204
Dissolution of donation to long-term asset	50,019	306,087	556,295
Other operating costs, net	-578,030	-846,170	-532,954
Operating costs total	-13,798,850	-15,287,491	-16,238,720
LOSS FROM OPERATIONAL ACTIVITIES	-371,618	-1,062,223	-1,099,906
FINANCIAL COSTS/REVENUES			
Exchange rate profit, net	687,750	134,953	267,152
Loan interest	-1,532,675	-114,404	-286,107
Other financial revenues	51,151	25,142	16,758
Financial revenues total	-793,774	45,691	-2,197
LOSS (pre-tax)	-1,165,392	-1,016,532	-1,102,103
Income tax	0	0	0
LOSS for the current accounting period	-1,165,392	-1,016,532	-1,102,103

BALANCE SHEET
(Slovak accounting standards)
 Comparison with previous years

	(thousand SKK)		
	31.12.2006	31.12.2007	31.12.2008
	(adjusted)		
ASSETS			
FIXED ASSETS			
Long-term tangible assets	63,820,647	70,665,058	73,469,189
Real-estates investments	1,418,829	1,464,822	1,309,470
Long-term intangible assets	104,143	137,225	92,297
Financial investments	67,252	57,996	56,826
Long-term assets	29,215	47,648	87,481
Total fixed assets	65,440,086	72,372,749	75,015,263
CURRENT ASSETS			
Inventories	615,859	703,127	763,230
Short-term receivables from bus. relations	855,987	1,370,657	876,597
Other receivables	659,044	777,009	432,465
Capital and cash equivalents	1,083,402	384,073	1,394,805
Total current assets	3,214,292	3,234,866	3,467,097
TOTAL ASSETS	68,654,378	75,607,615	78,482,360
EQUITY A LIABILITY			
EQUITY			
Equity	22,905,924	22,905,924	22,905,924
Capital funds	12,479,451	12,851,965	13,192,006
Legal reserve fund	636,303	636,303	636,303
Accumulated profit	-9,431,267	9,826,193	9,173,321
Total equity	26,590,411	46,220,385	45,907,554
LONG-TERM LIABILITIES			
Loans	1,688,540	2,889,188	4,858,118
State subsidies and EU subsidies	12,818,899	18,588,689	20,898,561
Reserves	2,466,451	2,803,505	2,822,798
Other long-term liabilities	412,941	315,770	51,468
Total long-term liabilities	17,386,831	24,597,152	28,630,945
SHORT-TERM LIABILITIES			
Short-term financial rental	20,447,456	64,935	72,294
Short-term from business relations	3,511,516	3,972,705	2,940,388
Liabilities towards public institutions	220,894	227,952	261,784
Other liabilities	497,270	434,457	584,670
Reserves	0	90,029	84,725
Total short-term liabilities	24,677,136	4,790,078	3,943,861
TOTAL EQUITY AND LIABILITIES	68,654,378	75,607,615	78,482,360

CASH FLOW STATEMENT

(thousand SKK)

	2007	2008
Loss before deducting income tax	-1,016,532	-1,102,103
Non-cash operations	2,316,093	2,409,517
Depreciation and amortization	3,068,142	3,824,204
Interests account on costs	114,404	286,107
Profit/Loss from sales of long-term tangible assets	19,827	-57,555
State of reserves change	427,083	13,989
Amortization of the state subsidies	-306,087	-556,295
Other item of a non-financial character	9,256	1,170
<i>Influence of status change of labour capital</i>	17,561	-119,372
Status change of receivables and other assets	-651,068	798,771
Status change of liabilities	755,897	-858,040
Status change of reserves	-87,268	-60,103
Cash-flow from operational activities	2,333,654	2,290,145
Interests paid	-101,265	-91,410
Net cash-flow from operational activities	2,232,389	2,198,735
Procurement of tangible and intangible assets	-9,626,196	-6,185,598
Subsidies for procurement of long-term assets	6,075,877	2,866,167
Revenues from sales of Long-term tangible and intangible assets	71,629	171,074
Net cash-flow from investment activities	-3,478 690	-3,148,357
Loan revenues	600,750	2,022,542
Instalment of liabilities from financial leasing	-53,825	-62,133
Net cash-flow from financial activities	546,925	1,960,409
Net increase or decrease of financial means cash and cash equivalents	-699,376	1,010,787
Balance of cash and cash equivalents at the beginning of accounting period	1,083,331	383,955
Balance of cash and cash equivalents at the end of accounting period	383,955	1,394,742

Complex financial statement, compiled in accordance with International standards for financial reporting for the year ending 31. December 2008, is published on the website www.zsr.sk in part “About us” – “Annual Reports”.

FINANCIAL INDICATORS OF THE ECONOMY LEVEL

(Slovak accounting standards)

	unit	2007	2008
Liquidity indicators			
Immediate liquidity		0.08	0.35
Current liquidity		0.37	0.58
Total liquidity		0.51	0.77
Indicators of cost rate			
Cost rate	%	107.12	107.28
Wage and salaries demands	%	46.14	45.54
Indicators of indebtedness			
Self-financing coefficient	%	85.72	85.12
Total indebtedness	%	14.28	14.88
Debt-to-equity ratio	%	16.66	17.48
Indicators of labour productivity			
From revenues	SKK/ employee	793,623	854,125
From performance	Train-km/ employee	2,775	2,783
Indicators of activity – turnover interval			
Inventories	day	24.68	28.49
Short-term trade receivables	day	48.11	32.72

PROCUREMENT OF TANGIBLE AND INTANGIBLE INVESTMENTS

(Slovak accounting standards)

	(thousand SKK)		
	2006	2007	2008
A. Total resources	8,391.5	9,769.9	6,035.5
Subsidies from the state budget	367.0	1,035.7	1,508.1
Own resources	1,819.0	2,338.4	2,059.4
Loans, issues	759.3	2,133.7	1,420.1
ISPA	1,233.4	153.9	0
Co-financing of the SR to ISPA	1,796.4	1,050.2	0
European Regional Development Fund (ERDF)	1,056.0	863.1	371.0
Co-financing of the SR to ERDF	352.0	287.7	126.7
Cohesion fund (CF)	724.8	1,404.3	250.6
Co-financing of the SR to CF	254.7	412.4	122.3
Technical assistance of the EÚ	0	0	3,8
Co-financing of the technical assistance	0	0	1,3
TEN-T	16.2	36	70.1
Co-financing of the SR to TEN-T	12.7	54.5	102.1
B. Total use	8,391.5	9,769.9	6,035.5
B.1 Long-term tangible assets	8,333.0	9,707.2	6,020.3
Track electrification and pre-electrification modifications	859.1	343.6	494.7
<i>Telecommunications and radiofication of lines</i>	73.5	80.0	309.7
Establishment of dispatcher centres at lines, safety installations, universal automatic block (UAB)	204.5	318.1	320.0
<i>Converter stations</i>	62.7	5.7	18.9
Track modernisation and reconstruction	6,903.8	8,184.5	4,092.2
<i>Buildings – residential and non-housing</i>	58.6	41.,0	556.8
Machines and equipment not included in the construction budget	170.8	307.3	228.0
B.2 Long-term intangible assets	58.5	62.7	15.2

RESEARCH AND DEVELOPMENT

The following resources were used for research and development tasks in 2008:

Resources	Total	Completed	Continuing
- from investment funds	8	7	1
- from company costs	27	19	8
Total	35	26	9
Area	Amount (thousand SKK)		
Operating processes			
- research costs	2,770		
- development costs	8,039		
Total	10,809		

The most significant tasks carried out in 2008 include:

- Establishment of ŽSR workplace on EMC issues
- Implementation of contactless speed measuring system of a railway vehicle and braking distance by GPS
- Implementation of static decking plant for crash tests of a railway vehicle and its components
- Innovation of electric pre-heating device (EPZ) for el. traction 3 kV DC
- Innovation of electric pre-heating device (EPZ) for el. traction 25 kV 50 Hz
- Modification in connection of interlocking type AŽD 71 operated by the wheel sensor type RSR 180
- Diagnostic device for measuring static parameters of overhead contact system on motor coach for inspection of overhead contact system
- Modernization of ground-fault protection of converter stations supply line protection of converter station
- Information system of a heavy-current and energetic equipments
- Implementation of charging and regulating unit of shunting equipment and execution of an equipment technical capability test
- Equipment for correction of case oscillations of tower waggon at measuring static geometric parameters of overhead contact system

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

LONG-TERM FINANCIAL ASSETS

The structure of ownership interest and property participation of ŽSR as of 31 December 2008 is as follows:

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

**The company was obliged to pay up SKK 27,630 thousand for a reserve fund.*

HUMAN RESOURCES

In 2008 ŽSR had an average of 17,724 employees.

The planned average registered headcount pursuant to the “Business Plan of ŽSR for 2008” was 17,958. The actual number of employees is 234 employees less as compared to the plan. The registered headcount dropped by 325 as of 31 December 2008 as compared to 2007.

In terms of the “Adaptation programme for graduates of selected schools” ŽSR employed 55 graduates of secondary schools and universities in 2008.

In accordance with the Collective Agreement of ŽSR the average salary amounted to SKK 22,098.

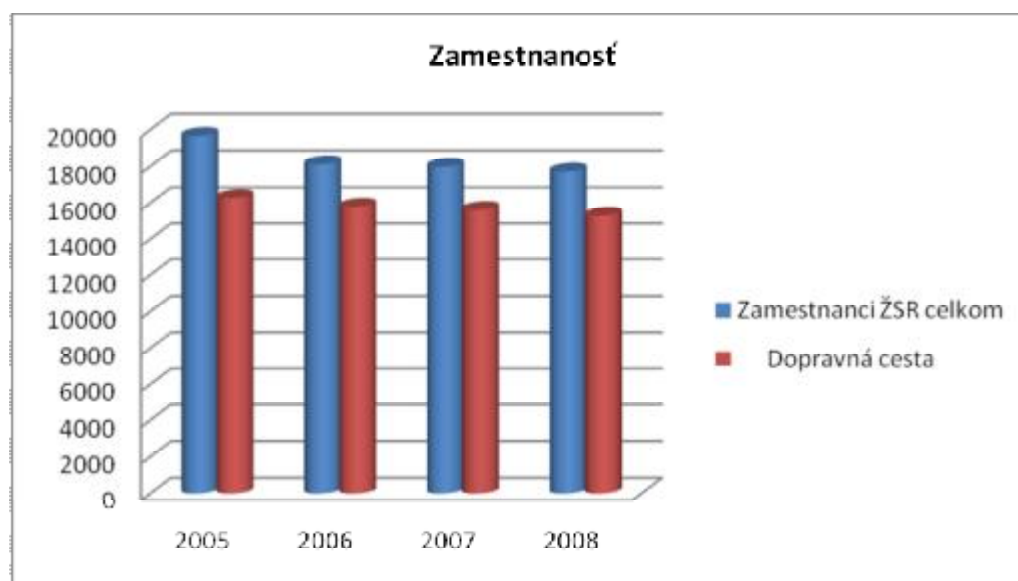
	2006	2007	2008
Total of ŽSR employees (average numbers)	18, 118	17, 982	17, 724
Infrastructure	15, 797	15, 621	15, 296
Directorate General	366	409	447
Other internal organisational units	1, 955	1, 952	1, 981

EMPLOYMENT RATE

The priority in the area of human resources was to find solutions to the lack of labour force in operation professions in certain regions. Therefore in cooperation with Railway Institute for Research and Development (VVÚŽ), Project “Organization meeting with students – the labour market” was developed. Meetings with students were organized with selected high schools in order to offer vacancies in ŽSR.

In connection with the financial crisis the situation on the labour market has been changed evidenced by increasing in demand for jobs in critical professions in ŽSR.

Employment rate



Zamestnanci ŽSR celkom – **Total of employees**
 Dopravná cesta - **Infrastructure**

OCCUPATIONAL SAFETY

Occupational injuries

	Year			Index	
	2006*	2007	2008	2007/2006	2008/2007
No. of employees					
Fatal occupational accidents	0	1	2	-	2.000
Severe injury to health	1	1	2	1.000	2.000
Incapacity to work of 42 and more days	11	18	15	1.636	0.833
Other occupational injuries	72	47	44	0.653	0.936
Total occupational injuries	84	67	63	0.798	0.940

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

SAFETY OF RAIL TRANSPORT

Accidents on ŽSR network

**2008 accidents on ŽSR network were processed and evaluated in accordance with Addition 5 of Act no. 164/969 Coll. and directive ES 49/2004 with its issued indicators.*

	Year			Index	
	2006	2007	2008*	2007/2006	2008/2007
Number of accidents on ŽSR network	618	591	367	0.96	0.62
of which:					
Major accidents (A)	122	135	150	1.11	1.11
Medium accidents (B)	24	22	29	0.92	1.32
Threat to rail transport safety (C)	472	434	188	0.92	0.43
Accidents caused by ŽSR	149	127	113.6	0.85	0.89
Accidents at level-crossings (cars and pedestrians)	67	69	69	1.03	1.00
Number of fatal injuries	101	105	114	1.04	1.09
Accidents caused by third parties	125	243	211	1.94	0.87
Incurred damage (million SKK)	52.4	66.9	91.1	1.28	1.36
Accidents caused by railway undertakings					
ZSSK CARGO	146	156	20.4	1.07	0.13
ZSSK	61	57	21	0.93	0.37
Other undertakings	11	8	1	0.73	0.13

ENVIRONMENTAL IMPACT OF ŽSR ACTIVITIES

ENVIRONMENT

➤ **Measures for reduction of negative impacts of ŽSR activities on the environment**

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

- continuing wide-range system for collection of dangerous waste in accordance with the effective legislation on waste management,
- reconstruction of bedrock subsoil and underground water in Čierna nad Tisou within the process of removing old ecological burden,
- hydraulic protection of the water source in Boťany, including an imposed monitoring,
- reconstruction of underground water in the area of the railway station of Brezno within the process of removing old ecological burden (oil substances in the soil and free phase of oil substances on the surface of underground water),
- removal and destruction of old ecological burden in the area of Čierna nad Tisou pursuant to the Act no. 223/2001 Coll. on waste,
- educational training in the field of ecology for Regional Directorate Trnava employees in Jasná,
- storage facilities and boiler-room controls,
- during the year medium resources for noble fuel were installed (as a replacement for solid fuel) in the railway stations of Vrútky and Martin, Institution for Railway Services (ZSŽ) Bratislava, workplace Košice, Bratislava main station, Nové Zámky, Jesenské and Tomášovce.

➤ **Overview of ecological accidents**

In 2008 the following ecological accidents had to be solved as they had impact on the environment and endangered water sources:

- In the railway station of Horná Štubňa ca 100 litres of diesel leaked out into the rail foundations as a consequence of a truck - train collision on a railway crossing.
- In the railway station of Banská Bystrica an unspecified volume of diesel leaked out after damage of fuel tank of a motive power unit.
- Accident on traction transformer in supply substation Galanta, where a fire showed up and at the same time ca 700 litres of transformer oil leaked out into the rail foundations.
- In the railway station of Zvolen passenger station motor oil leaked out a locomotive and Zvolen freight station sodium hydroxide leaked out from a cistern.

- In the railway station of Hrhov - Jablonov – diesel leaked out of a locomotive as the result of technical failure.
- In the railway station of Leopoldov and in the railway station of Púchov oil leaked out.

➤ **Air pollution**

The Railways of the Slovak Republic pollute air mainly by stationary sources. In terms of the statutory obligation the air pollution charges by medium sources of ŽSR were calculated for 2008 and settled in the amount of SKK 338,700.

IMPORTANT EVENTS AFTER 2008

- Nowadays financial and economic crisis that is influencing business, economic, functional and social field.
- Adopting “Precautionary measures of solving impacts of economic crisis on ŽSR” and its development in section’s particular tasks of Directorate General of ŽSR and its internal organizational units.
- Application preparing of impacts of the proposal Act on Railroads and Act on Transport on railroads.
- Impacts on ŽSR resulting from the Ministry of Transport, Posts and Telecommunications of the Slovak republic (MDPT SR) document “Revaluation of performance and economy effectiveness of railway undertakings”, including a concept of railway infrastructure charging
- Specialized unit of ŽSR – Project centre since 01.01.2009 by conclusion of Director General no. 21/2008 from managerial competence of Deputy Director General for Operation to managerial competence of Deputy Director General for Development and IT.
- Completion the Project of change in organization of investment process and process of creating and realizing the strategy of ŽSR and expertise project.
- Realization of the Property revaluation project.
- Conversion of SAP RED information system towards Euro currency.
- Adoption of the Operational Programme for Transport for 2007 – 2013 by the European Commission on 13 September 2007 shall take effect in multi-annual measures related to modernisation and development of railway infrastructure, making use of financial support from Cohesion fund and European Regional Development Fund. Measures shall also concentrate on TEN-T support.
- Launching into operation for speed up to 160 km/h on modernized lines.
- Implementation of railway station revitalisation project.
- Entry of ŽSR into common partnership following the Act of government of SR no. 153/2003 for purpose of analysis the Project of broad-gauge line extension Košice – Bratislava – Viedeň and the logistic centre was established in term of economic and financial efectivity.

STRATEGIC OBJECTIVES

The strategic plans of ŽSR depend on external and internal trends of economic and legal environment of a European Union Member State. The European Commission significantly supports railway infrastructure development and gives priority to rail sector over road transport. Railway undertakings are planning important projects for the period of 2007 – 2013 (2015) mainly for the railway infrastructure development. At the same time a potential of the transport market and a potential of the railways have been analysed.

Expectations of increasing in rail freight transport as a result of the economic growth, industrial depots and automotive industry development were revised due to financial and economic crisis. However, a stronger effort of state bodies is necessary in order to give preference to rail freight transport.

Gradual liberalisation of conditions on the transport market puts pressure on the quality of services provided by operators and infrastructure managers.

ŽSR strategy defines its main priorities focusing on:

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

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

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

When providing for international transport flows, ŽSR focuses on settling the contacts with the neighbouring railway administrations.

In view of strategy and forecasts of transport growth between east and west, the railway connections in the east of Slovakia become more and more important. The EU puts adequate significance to this area. The crossings in Čierna nad Tisou and Maťovce are of strategic importance for ŽSR.

Slovak railway sector has to put integrated effort in order to include the proposals of a priority freight network, the so-called Primary Freight Network, into ŽSR corridors.

As regards combined transport, MTPT SR coordinates the process of preparation of four new public intermodal terminals in the period of 2007 - 2013. The terminal in Žilina Teplička shall be the first to be constructed. ŽSR shall take over the role of an investor and manager.

The railway connection between Vienna and Bratislava has become an important project with a potential growth for both passenger and freight in the "Centropa" region and as a part of TEN-T 17 project of the line connecting Paris - Strasbourg - Stuttgart - Vienna - Bratislava that is planned to be completed by 2015. The project preparation has begun; however, the coordination with the urban public transport in the area of Bratislava appears difficult.

As regards regional transport, harmonisation of traffic between individual regions, which may become important players in organising regional transport, is needed.

Transport market liberalisation poses a task of minimizing network bottlenecks by ŽSR that could prevent entry of foreign carriers. Solutions resulting from the technical specification of interoperability and new technologies (ETCS, GSM-R) have to be implemented within agreed time schedules.

As regards railway legislation, railway undertakings face further liberalisation measures. ŽSR have been following the legislation process and gradually implement the recommendations in accordance with the national legislation.

Participation of ŽSR in significant international railway organisations such as UIC, CER, OSJD, EEC-UNO-TER, G4, V4, RNE and others enables ŽSR to follow strategic trends and implement the results within the company. Position of railways on the European transport market has been analysed in various EU studies - Trend, Reorient, UIC ERIM and others.

Despite substantial investments from the Cohesion fund for modernisation of ŽSR corridors in the period of 2007- 2013, there are risks of postponing several technological projects beyond this time framework.

Modernised track section of Bratislava Rača - Trnava - Nové Mesto nad Váhom will be gradually launched into operation for speed of up to 160 km/h in the course of 2008 and 2009, which should create conditions for positive image of railway transport in the eyes of passengers.

The main influence on strategic goals fulfillment of the ŽSR will be affected by further trend in the worldwide financial and economic crisis which is hard to foresee now.

INDEPENDENT AUDITOR'S REPORT

for the Governing Board of the Railways of the Slovak republic, Bratislava

BDR – auditing agency

We have audited the enclosed financial statements of Železnice Slovenskej Republiky (Railways of the Slovak Republic) based in Bratislava, IČO (identification number): 31 364 501, including the balance sheet as on 31 December 2008, profit and loss statement, statement of equity changes, cash-flow statement for the year then ended, as well as overview of the important accounting principles and methods and other explanatory remarks. Financial statement for the year ending 31.12.2007 was certified by other auditing agency, which in its statement as of 31. March 2008 expressed its opinion without restrictions.

Responsibility of the company management for the financial statements

The management of the company is responsible for preparation and fair presentation of these financial statements in compliance with the Act on Accounting no. 431/2002 Coll. as amended. This responsibility includes drafting, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statements, which shall not contain material inconsistencies, whether due to fraud or mistake; selecting and applying of suitable accounting rules and principles, and preparation of accounting estimates adequate for the given situation.

Responsibility of the auditor

Our responsibility is to express an opinion on these financial statements based on our audit. We have conducted our audit in accordance with the International Standards on Auditing. Those standards require that we maintain ethical requirements and plan and conduct the audit so as to acquire sufficient assurance that the financial statements do not contain material inconsistencies.

The audit comprises undertaking steps in order to obtain audit evidence on amounts and the data stated in the financial statements. The chosen methods depend on the auditor's judgment, including the risk assessment as regards serious inconsistencies in the financial statements, whether due to fraud or mistake. When assessing this risk the auditor considers the internal control relevant for preparation and fair presentation of the financial statements in order to be able to propose auditing methods suitable for the given circumstances, however, not for the purpose of expressing an opinion on the effectiveness of the internal control of the accounting unit. Furthermore, the audit consists of evaluation of appropriateness of the applied accounting principles and methods and adequateness of significant accounting estimates made by the management, as well as assessment of the overall presentation of the financial statements.

We are convinced that the auditing evidence that we obtained is sufficient and suitable as a basis for expressing our opinion.

Scope limitation

We did not participate on the physical inventory of reserves as of 31.12.2007 whereas this date preceded our designation as the auditing agency of the company. Therefore we cannot assure ourselves of the influence of initial reserves status on material consumption for the year ending 31.12.2008.

Opinion

In our opinion, except influence of circumstances mentioned in previous paragraph, the financial statements present truthful and fair overview of the financial position of the Railways of the Slovak Republic as on 31 December 2008, as well as of the economic results and financial flows for the year then ended, in accordance with the International standards for financial reporting as amended by European Union.

Highlighted facts

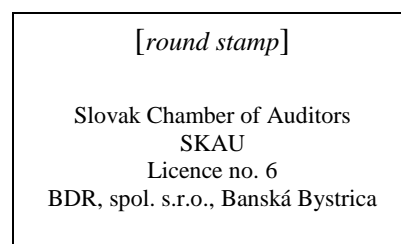
Without prejudice to our opinion, we draw attention to the following issues:

1. As stated in the Note 1 to the financial statements, ability of the company to continue its running, according to rule of the perpetual duration of the company and to fulfill its investment program and other operation and financial liabilities, the company remains dependent from the state aid in form of capital and operation subsidies.
2. As stated in the Note 5 to the financial statements, the company is exposed to notable credit risk of individual contractor as 42.45% of receivables as of 31. December 2008 is towards two major customers ZSSK CARGO Slovakia and ZSSK Slovensko (as of 31. December 2007 69.32%), which are at the same time companies allied persons, as stated in the Note 33 to the financial statements.
3. As stated in the Note 34 to the financial statements, proposal of the new Act on Railroads an Act on Transport on railroads may affect change of infrastructure charging in the future.

In Banská Bystrica, on 20 March 2009

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Licence SKAu no. 6
Companies Register – District Court Banská Bystrica
Section: Sro, Insert no. 98/S, IČO (identification no.) 00614556

Ing. Ľudmila Svätová, MBA
Responsible auditor
Licence SKAu no. 936



[signature]

RATING

№ 0081/2

Moody's Central Europe

přiznává společnosti

Železnice Slovenskej republiky, Bratislava



V Praze dne 6. června 2008


vedoucí analytik
Moody's Central Europe


výkonný ředitel
Moody's Central Europe

Rating udělený výše je platný ke dni udělení. Tento rating však může být na základě různých událostí změněn nebo ukončen.



Moody's Central Europe a.s.

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