



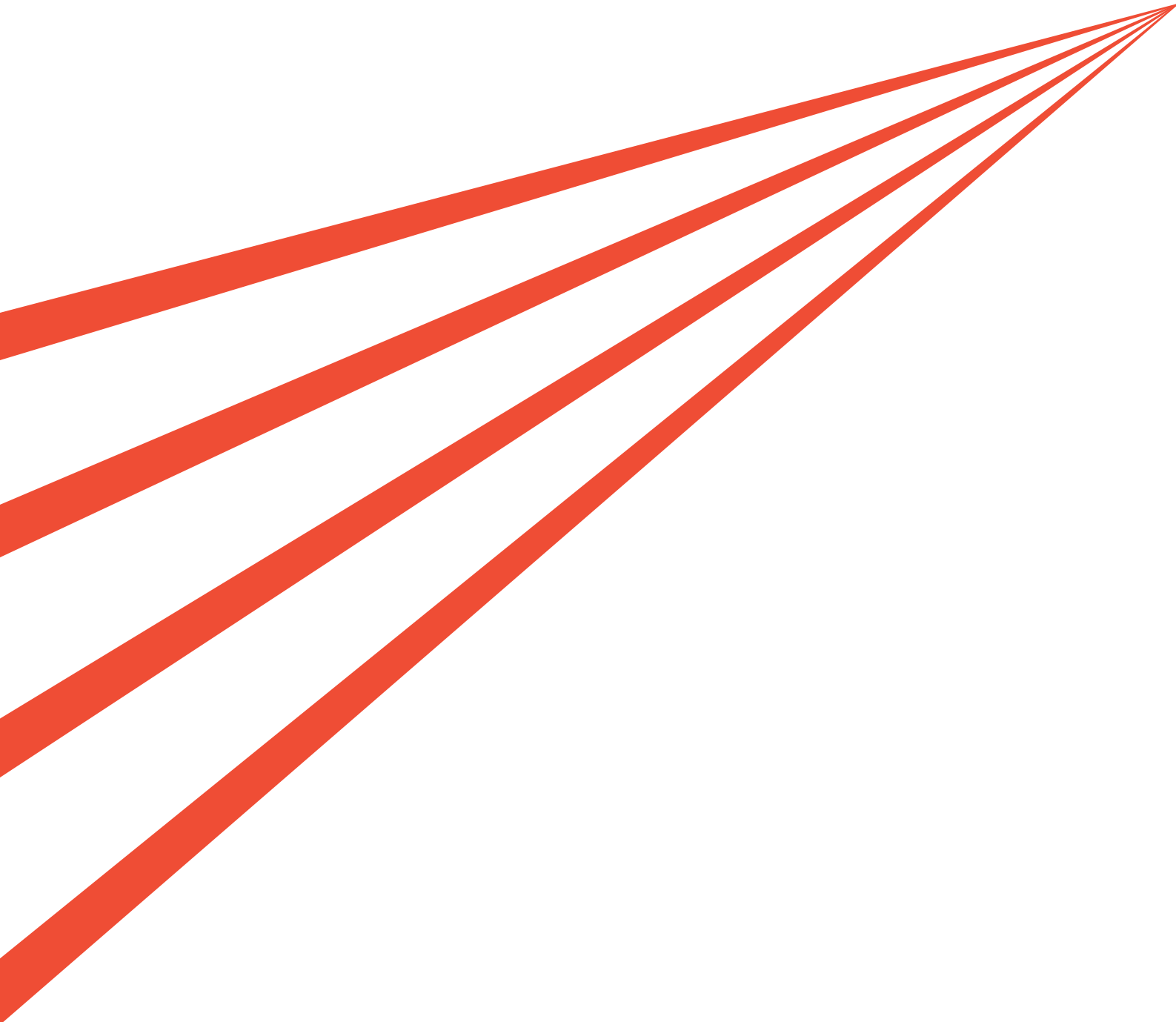
ANNUAL REPORT

OF ŽELEZNIČNÁ SPOLOČNOSŤ SLOVENSKO, A. S.



ŽELEZNIČNÁ SPOLOČNOSŤ SLOVENSKO

2005



ŽELEZNIČNÁ SPOLOČNOSŤ SLOVENSKO

www.slovakrail.sk

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List of Abbreviations

CER	Community of European Railway and Infrastructure Companies
EC	Euro City train
IC	Inter City train
MTPT SR	Ministry of Transport, Posts and Telecommunications of the Slovak Republic
MF SR	Ministry of Finance of the Slovak Republic
OSJD	Organisation for Cooperation of Railways
PSO	Public Service Obligations
SAP R/3	Corporate information system
SBB	Swiss Federal Railways
SR	Slovak Republic
SZNR	Machines and equipment not included into the budget
UIC	International Union of Railways
ÚRSO	Regulatory Office for Network Industries
WGS	Wagon Slovakia
VAT	Value Added Tax
ZSSK	Železničná spoločnosť Slovensko, a.s.
ZSSK Cargo	Železničná spoločnosť Cargo Slovakia, a.s.
ŽSR	Železnice Slovenskej republiky

Foreword of the Director General

Železničná spoločnosť Slovensko, a.s. completed its first year of existence. It was established on 1 January 2005 as one of the newly founded successor joint-stock companies after the split-up of the unitary passenger and freight operator, Železničná spoločnosť, a.s.

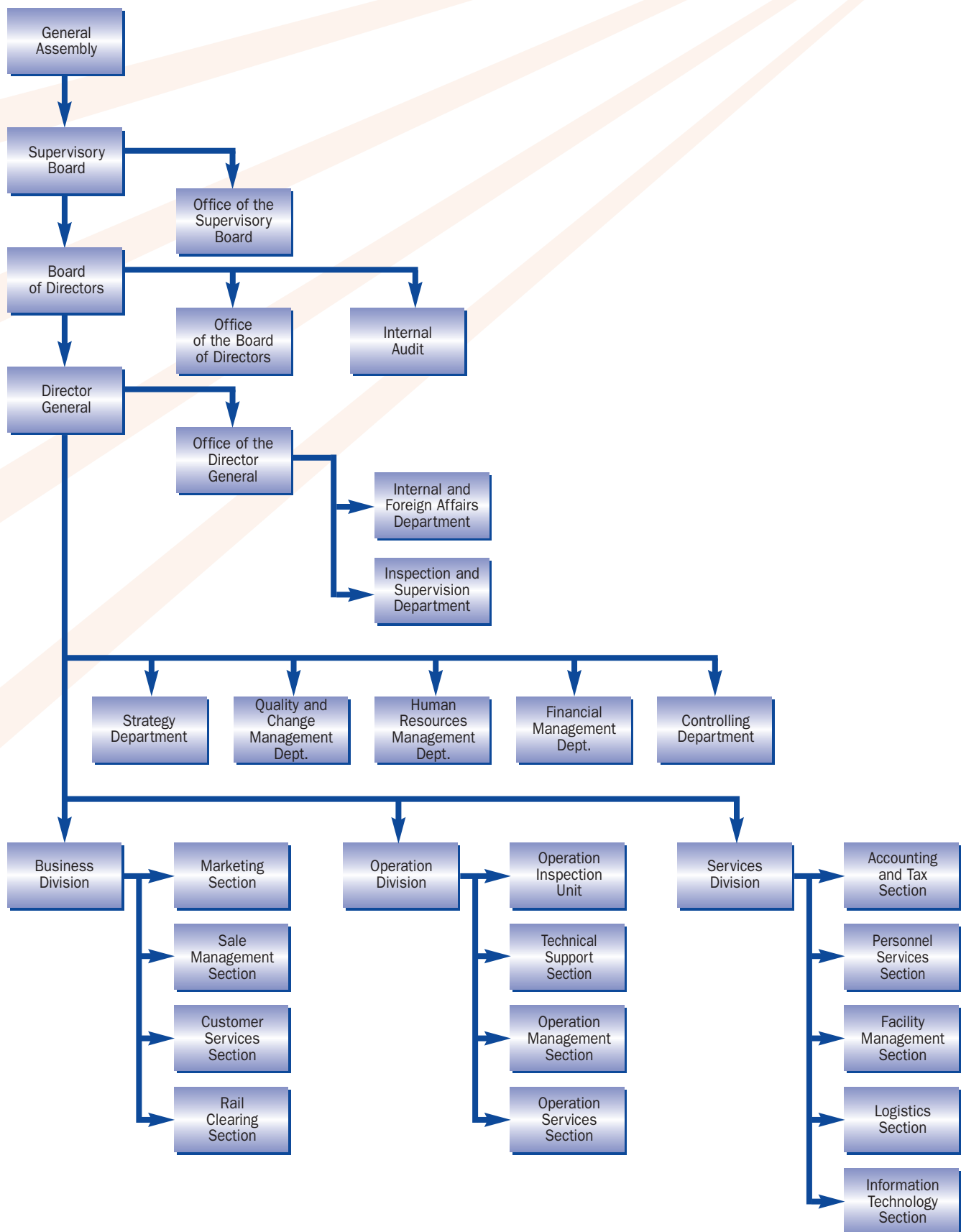
From the very first hours of the company existence it was necessary to provide for efficient running of all workplaces and thus to ensure smooth operation of rail passenger transport in Slovakia. The priority focus of the first months concentrated on financial, personnel and competency issues. It goes without saying that everything was happening in full operation and in such a way as not to make our customers, the passengers, notice any implications of the split-up. With more time elapsing, I may affirm that the transfer from one entity into another was smooth from the operation point of view, as well as regards fulfilling the obligations towards business partners.

Satisfaction or discontentment of our customers lied in our own hands, nevertheless, it was influenced also by circumstances outside our competency. I particularly refer to modernisation of V. Corridor section between Trnava – Leopoldov – Nové Mesto nad Váhom and related closure on the main track affecting the punctuality of the train timetable. The journey time between Bratislava and Košice prolonged, and during the fully charged hours passengers suffered complications when getting to work or school, trains were delayed. Even though in the last months of the year we managed to halt the decline of passenger volumes, which happened, in fact, for the first time in the existence of independent railways in Slovakia since 1993, the planned passenger volumes and revenue volumes for 2005 were not fulfilled. In domestic and international traffic we transported a total of 49.054 million passengers, which is 208 thousand less against the plan. The transport revenues amounted to SKK 2.152 billion, which was by SKK 102.8 million less as compared to the plan. Our analysis of load factor on track sections, ticket sale in individual tariff points per region, per ticket type and per kilometre zones showed that the shortfall against plan was mostly caused by reduced revenues in the western regions, which were closely linked to the traffic disruption on the V. Corridor.

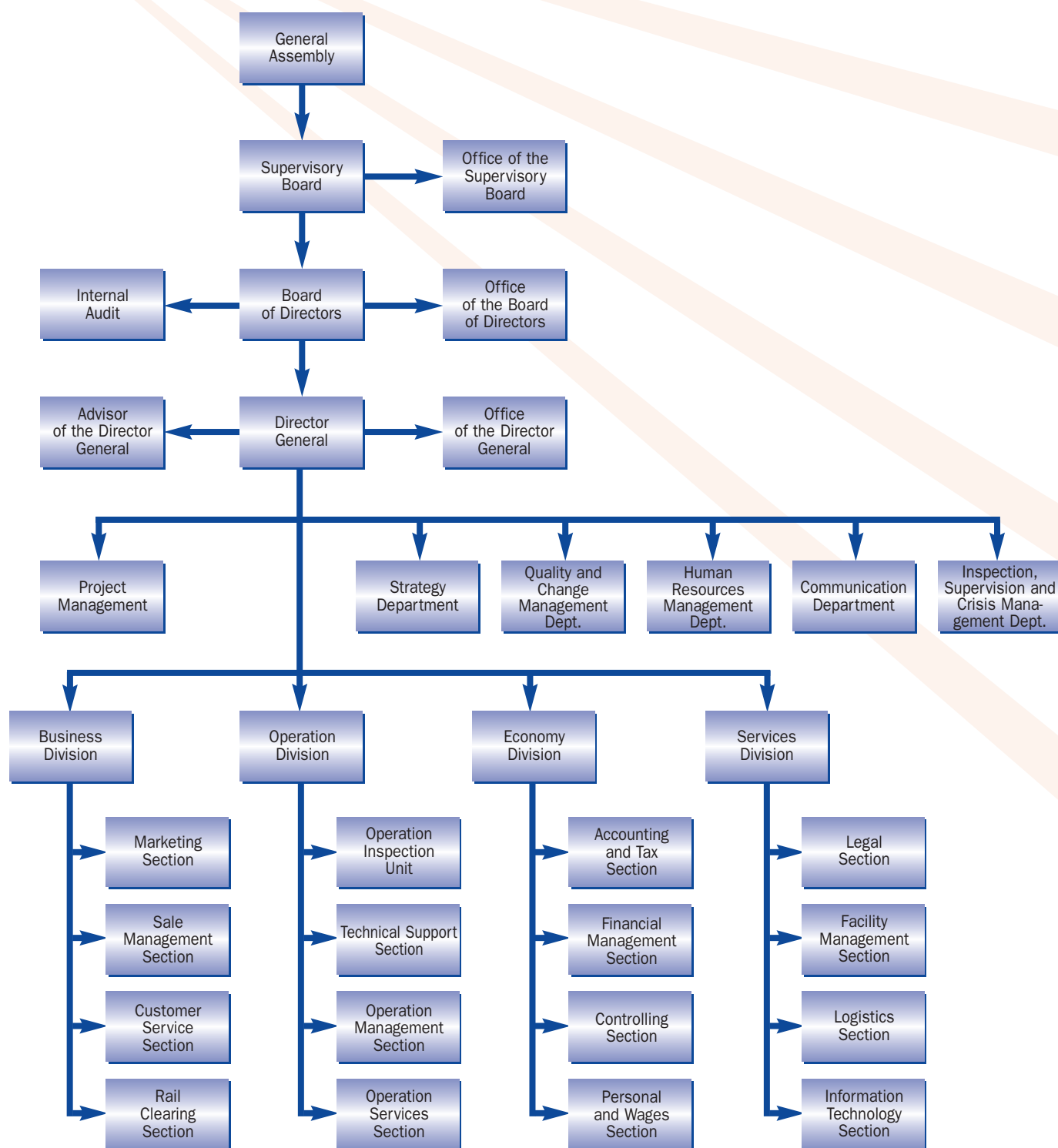
However, by internal corporate measures, consistent costs management and seeking for reserves, we managed to achieve better business results than set by the Business Plan for 2005. The planned loss was reduced by almost SKK 457 million.

The company reached a good starting position for the next year, not only thanks to better business results, but also due to changes in the management and organisation of the company. Right from the beginning of the company existence we successfully introduced process management, updated the company strategy for 2006 – 2013 and carried out a project of process consolidation of strategy and methodology implementation based on the Balanced Scorecard. It is indeed not sufficient to have the employees who know the company strategy or its business objectives. Each employee has to find his/her own place in the particular process and undertake personal responsibility and related competencies. The working performance within this process has to be measurable in a transparent way and last, but not least, rewarded according to the results achieved. Within our possibilities, we had tried to find, and found, ways inside the company to improve the business results and to attract new customers to railways. We have substantially rebuilt the basis of the product portfolio, launched an extensive project called New Order focused on system changes in quality enhancement in passenger transport. And we shall continue. I firmly believe the goals will be achieved also with the help of the State, especially in areas where our options are already at the end – in the renewal of rolling stock fleet. Only 15 % of the fleet is aged under 15 years, 85 % over 15 years and as much as 70 % of rolling stock is older than 30 years. I trust that renewal of the rolling stock fleet will make our efforts to introduce broad changes in rail passenger transport even more visible.

Organisational Structure (until 31 July 2005)



Organisational Structure (since 1 August 2005)



Optimisation of processes and continuous enhancement of process management system in ZSSK led the company bodies to carry out a change in the organisational structure of the company as of 1 August 2005.

The most crucial change in the organisational structure was brought along by creation of an independent Economy Division aiming at centralisation of economic processes management within the company.

Board of Directors of the Company

ZSSK is incorporated in the Commercial Register of the District Court of Bratislava I., and was established as of 1 January 2005. Its founder and a 100-percent shareholder is the Slovak Republic, represented by the Ministry of Transport, Posts and Telecommunications of the Slovak Republic.

The General Assembly is the supreme body of the company.

The Board of Directors is the statutory body of the company. It is authorized to act for and on behalf of the company in all matters and represents the company against third parties, at courts and other bodies. The Board of Directors manages the company activities and decides upon all company matters, unless assigned to other company bodies by legal regulations or company statutes. It consists of five members.



Ing. Ondrej MATEJ

Chairman of the Board of Directors

Director General

of Železničná spoločnosť Slovensko, a. s.

Ing. Pavol GÁBOR

Vice-Chairman of the Board of Directors

Economy Division Director

of Železničná spoločnosť Slovensko, a. s.

Ing. Jaroslav BAJUŽIK

Member of the Board of Directors

Operation Division Director

of Železničná spoločnosť Slovensko, a. s.

Ing. Pavol GALLO

Member of the Board of Directors

Business Division Director

of Železničná spoločnosť Slovensko, a. s.

(from 1 January 2005 till 7 December 2005)

Ing. Miloslav LUŽÁK

Member of the Board of Directors

Services Division Director

of Železničná spoločnosť Slovensko, a. s.

(from 8 December 2005)

Ing. Peter KLIMENT

Member of the Board of Directors

Director of Human Resources Management Department

of Železničná spoločnosť Slovensko, a. s.

Supervisory Board

The Supervisory Board is the supreme control body of the company. It supervises the activities of the Board of Directors and business activities of the company. It consists of six members.



Ing. Ján KOTULA

Chairman of the Supervisory Board

Ing. Dušan TURANOVIČ

Vice-Chairman of the Supervisory Board

Mgr. Jozef SCHMIDT

Member of the Supervisory Board

Ing. Anton JABOREK

Member of the Supervisory Board

Ján GRIEČ

Member of the Supervisory Board

Ing. Štefan HLINKA

Member of the Supervisory Board

Scope of Activity

Železničná spoločnosť Slovensko, a.s. performs transport and commercial activities by rail. The scope of activity of the company is as follows:

1. operation of transport on the railway network - national and regional railways,
2. engineering activity except for the selected construction activities,
3. advertising and promotional activity,
4. copying and photographic activity,
5. organization of education in the field of railway transport,
6. manufacturing of spare parts for machines and mechanisms,
7. purchase of goods for the purpose of their sale to other traders (wholesale trade),
8. purchase of goods for the purpose of their sale to the end consumer (retail trade),
9. intermediary activity within the scope of free trade,
10. lease of real estates including provision of supplementary services,
11. domestic irregular and bus traffic,
12. domestic freight road traffic,
13. exchange activities,
14. provision of software – sale of ready-made programmes under the contract with the author,
15. automated data processing,
16. counselling and consultancy in the field of hardware and software,
17. activity of accounting counsellors,
18. bookkeeping,
19. forwarding,
20. repairs of working machines,
21. repairs of road motor vehicles,
22. provision of mailing services,
23. lease of transport vehicles and mechanisms,
24. lease of consumer and industrial goods,
25. publishing activity within the free trade,
26. storage of things,
27. activity of the chief clearance agent,
28. metal working,
29. geodetic and cartographic works,
30. running of technical libraries,
31. operation of railway sidings,
32. operation of transport on railway sidings,
33. carrying out of maintenance, inspections, repairs, reconstruction and revisions of the specified technical pressure devices,
34. carrying out of assemblies, inspections, repairs, maintenance, revisions, testing and servicing of the specified electric devices,
35. welding of rolling stock,
36. heat production.

The company may run business activities in the scope stated above pursuant to the following:

- License no. 858/2005-ŠDÚ-ŠOD/Ks, File no. 0763/2005/L of 29 April 2005
- Trading License Reg. no. Žo-2005/12195/2/Z25 of 16 March 2005
- License Deed no. OŽP-A/2005/48837-2/CR1
- License Deed no. OŽP-A/2005/48837-2/C
- License Deed no. Žo-2005/12193/2/Z25 of 16 March 2005
- Authorization no. 1308/2005-ŠDÚ-K, File no. K-24/2005 of 1 July 2005
- Authorization no. 3143/2005-ŠDÚ-E/Bt, File no. E-60/2005 of 23 December 2005
- Authorization for welding of rolling stock no. 1307/2005-ŠDÚ-Zv/Jg, SI, Sa, File no. Zv-13/2005 of 18 May 2005
- Permission of the Regulatory Office for Network Industries no. 2005T 0017 of 31 May 2005

Passenger Transport

During the year 2005 **49,054,874 passengers** were transported in passenger transport, which meant reduction by 208 thousand passengers against the plan, i.e. the fulfilment of the plan in 99.6 %. In comparison with the reality of the last year 1.2 million passengers less were transported, i.e. decrease by 2.0 %, out of which :

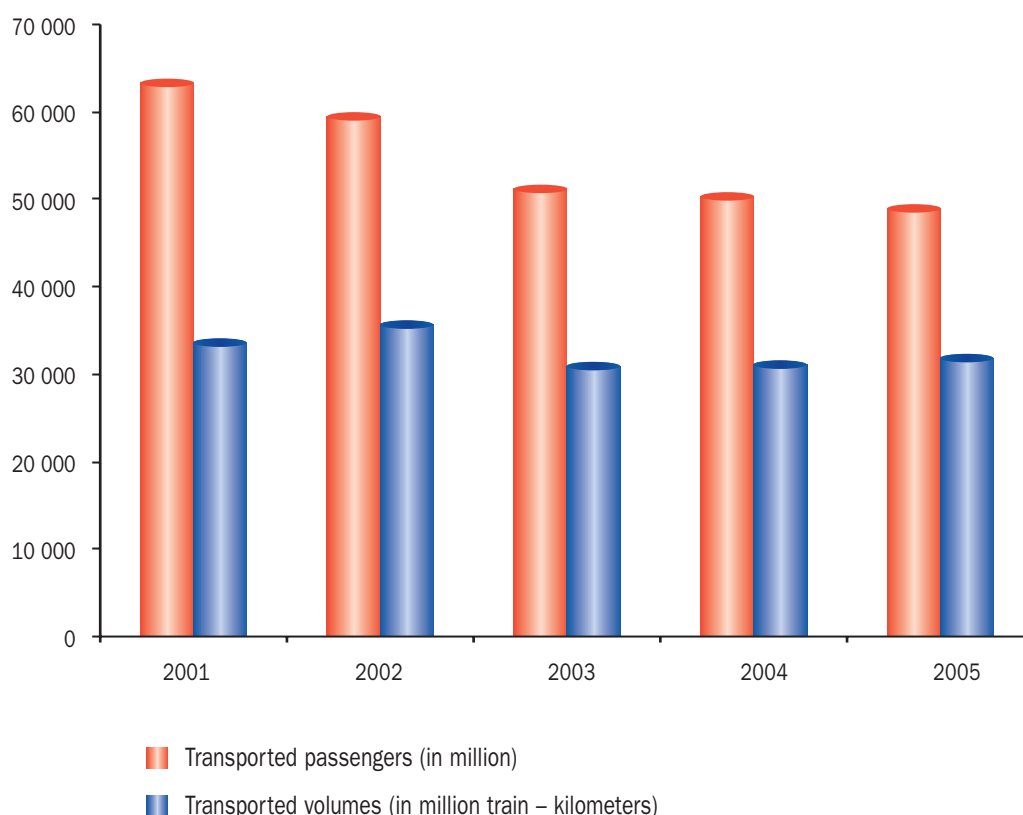
- the domestic traffic recorded the reduction of passengers against the plan by 557 thousand (-1.12 %) and the inter-annual reduction by 1,542 thousand passengers (-3.0 %),
- the international traffic recorded the increase against the plan by 349 thousand passengers (+16.4 %) and inter-annual increase by 328 thousand passengers (+15.3 %).

The total transport volume in **passenger-kilometres** for the year 2005 amounted to **2,166,216 thousand**, which meant reduction by 200,684 thousand (-8.5%) against the plan. In comparison with the last year the transport volume decreased by 61,701 thousand (-2.8 %).

The total transport volume in **train-kilometres** for the year 2005 amounted to **31,754,733 train-kilometres**, which meant increase by 67,333 train-kilometres (0.2 %) against the plan. In comparison with the last year the transport volume increased by 611,261 train-kilometres (+ 0.48 %).

Development of volumes in passenger transport:

Total passenger transport	2001	2002	2003	2004	2005	2005/2004
Transport volume (million passenger-kilometres)	2,805.4	2,682.3	2,315.6	2,227.3	2,166.2	97,26 %
Passengers (million)	63.473	59.430	51.274	50.268	49.054	97,58 %
Transport volume (million train-kilometres)	33.70	35.58	30.83	31.14	31.75	101,96 %



The plan of passenger volume for 2005 was prepared in accordance with the trend of several past years indicating decline in the interest of the travelling public, which reflects the final transport volume achieved for this passenger transport indicator. At the same time the actual average transport distance reached the figure at the similar level as in 2004 (44.31 km/passenger in 2004, and 44.16 km/passenger 2005). This fact, accompanied by decline in the number of transported passengers due to partial closure of traffic on the Corridor V, were the main causes for decreased transport volumes in passenger-kilometres. The decline in load factor was most significant on the track sections and lines with traffic disruption.

The decisive qualitative indicator in passenger transport – observation of the train timetable – was set under the PSO contract to 95.0 %. ZSSK fulfilled this indicator in 96.89% in the year 2005.

Type of train	Fulfilment of the train timetable (%)			Contract performance in %	Reality year 2004	Index 2005/2004
	Contract 2005	Reality rok 2005	Difference			
– international fast trains	89.50	92.07	2.57	102.87	92.38	1.00
– domestic fast trains	89.60	92.13	2.53	102.82	92.97	0.99
– passenger slow trains	95.70	97.33	1.63	101.70	97.52	1.00
Total passenger transport	95.00	96.89	1.89	101.99	97.22	1.00

International Activities

International activities of Železničná spoločnosť Slovensko, a.s. in 2005 were driven by the aim to establish the company as an independent rail passenger operator on European and domestic transport market. Železničná spoločnosť Slovensko, a.s. undertook formal steps to become member of international organisations on regional level (G-4, V-4) and broader European and worldwide level (CER, UIC, OSJD).

2005 was an important year of implementation of European Community legislation regarding liberalisation of the transport sector and interoperability of conventional rail systems. Company representatives actively participated in the revision of drafted proposals of national version of the Technical Specifications of Interoperability, in close cooperation with experts of MTPT, ŽSR and Železničná spoločnosť Cargo Slovakia, a.s. Besides technical issues, a crucial theme for railway experts on legislation dealing with trade and rail operation was the so-called Third Railway Package. They exchanged their viewpoints and experience as regards application of the draft Regulation on passengers rights at a conference with participation of representatives of the European Commission, the European Parliament and international railway organisations. The Report on application of "Passenger Rights Charter" was presented in the European Parliament in Brussels on 13 September 2005.

In cooperation with the International Union of Railways, ZSSK organised a meeting of the UIC International Passenger Forum on 14 – 16 June 2006.

With the aim to present its long-term objectives and vision to broader public and partner companies, Železničná spoločnosť Slovensko, a.s. held an International Conference "ZSSK Strategy in Context of European Transport Policy" on 18 October 2005, having the pleasure to host, among company representatives, also speakers from the Community of European Railway and Infrastructure Companies (CER) and Swiss Federal Railways (SBB).

International activities of the company in 2005 were successfully rounded off by organising an international conference under the auspices of the UIC and the EC on rail transport security in the EU. The meeting was attended by European experts on railway security and also by EC experts who appreciated achievements and preparedness of engaged security bodies and railway companies to fulfil demanding tasks that need to be solved with respect to terrorist attacks on railways in the last years.

In the framework of bilateral relations of Železničná spoločnosť Slovensko, a.s. several bilateral meetings of Directors General of European railways were held in 2005.

Strategic Objectives of ZSSK

On 1 January 2005 Železničná spoločnosť Slovensko, a.s. stepped on its new path. A new and different path, because now we can and must concentrate only and solely on passengers. Our mission is to provide basic passenger transport services. In January 2005 the company stood on the starting line, facing serious challenges in the near future to maintain and enhance its market position. To establish our position on the intensively opening market shall not be simple. In the period of the following three years the reform of public administration should be completed and also the accompanying shift of original responsibility for ordering public transport volumes to regional authorities. The public is indicating that the train is an important transport means in Slovakia, especially in long-distance and suburban transport. People like travelling by train, because a train journey is safe and comfortable. Our customers prefer trains of higher quality, the number of which is nowadays still low in Slovakia. We think that at the present times, fast trains should meet the same standards that our customers are familiar with in IC trains.

The volume of passengers transported by ZSSK has been declining for several years. In the past the situation was mainly caused by shift of passengers into individual transport. Fulfilling the strategic objectives of the company thus means to halt this decline, stabilise the customers and attract new ones in the future by promoting the advantages of rail transport. This aim may be achieved only when based on a market-oriented business policy and a significant support of renewed technical background. Our primary objective is to offer safe and reliable transport for adequate prices to the customer. Our society is not quite aware of the fact that annually 40 thousand persons die on roads of the European Union due to accidents, while railways did not cause a fatal accident in Slovakia in more than 16 years. Safety and environmentally-friendly aspect are a competitive advantage of ZSSK that we would like to present to our customers. Besides safety, of course, the quality of passenger transport is another crucial factor and the principal precondition for customer satisfaction. Enhancing travelling culture is an important challenge for railways, because crowded Slovak roads nowadays often suffer by traffic jams, disproportionate delays and consequent congestions as well as increased emissions of pollutants burdening significantly the state budget. We realise that railways will break through when they offer comfort to customers. Comfortable journeys providing opportunity to relax, or use effectively the journey time, especially when travelling for longer distances, become more and more the European way of travelling, preferred to individual transport. Integrated systems in bigger cities and their surrounding put emphasis on rail transport in general, whether light or heavy.

The next eight years the main business activities of ZSSK shall focus on rail passenger transport. A change may be brought in regional transport by entry of a strategic partner, or establishment of joint venture with other transport undertakings within the regions. An analysis shows that the major opportunities for ZSSK in the future years are in extension of train connections, more effective use of rolling stock fleet and increase of productivity of the current personnel. We wish to procure new trains in the areas showing possibilities of major foreign investments as well as into the areas with high mobility of population where, at the moment, our offer is not competitive enough. We shall consistently re-evaluate train connections and shall negotiate harmonisation with other public transport systems. Such steps could create real conditions for reduction of risks resulting from competition for public service funding of regional authorities within their original competencies.

The strategic plan of ZSSK has been elaborated on the basis of analyses of our competitors, the business environment, current human resources of the company, financial position of the company, transport market in Slovakia and neighbouring countries, past developments and business growth of European railways in similar conditions as those of ZSSK.

The major efforts of the company have been directed to achieve:

- *Long-term financial stability and growth of Železničná spoločnosť Slovensko, a.s.*
- *Stabilisation and growth of the current transport share in the market economy of the Slovak Republic and the European Union*
- *Competitive position on the domestic and international transport market*
- *Continuous increasing of customer satisfaction and company performance*
- *Creating a company with a positive image attracting creative and talented people*
- *Concentration on the core business of the company, outsourcing the servicing activities*

By meeting all conditions and partial objectives we would like to achieve transport volumes of 10 years ago when the railways in Slovakia transported more than 90 million passengers a year. Whether the reality would match the optimistic forecast or the pessimistic scenario, we are here to satisfy the needs of the maximum number of passengers and fulfil the vision of the owner, and all stakeholders.

Human Resources

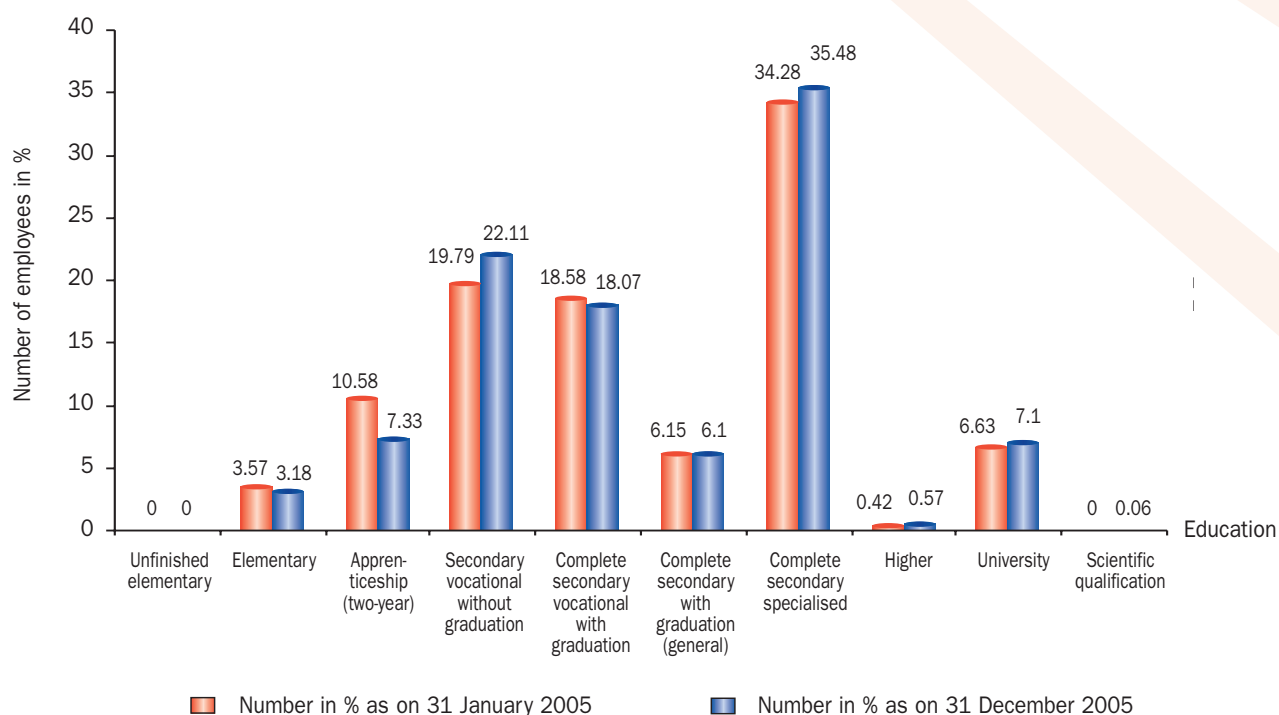
In 2005 the Human Resources Management of ZSSK focused on fulfilling and harmonising the conclusions of process management, introduced in ZSSK since 1 January 2005.

The project of split-up of ZSSK planned 4,819 employees. Since 1 January 2005 the company recorded 4,742 employees, till 31 December 2005 the number increased by 33 people. Železničná spoločnosť Slovensko, a.s. kept records of 4,775 employees as on 31 December 2005.

The average wage within the company was planned on the basis of an agreed increase of the average wage for 2005 and recalculation of average wages of the employees of Železničná spoločnosť, a.s., who became employed by Železničná spoločnosť Slovensko, a.s. on the day of split-up, i.e. on 1 January 2005, in the amount of SKK 19,640. The average wage of the employees of Železničná spoločnosť Slovensko, a.s. in 2005 was SKK 19,749.

As regards training and education, within the New Order Project a greater emphasis was put onto development of business skills of employees of the first contact (cashiers, ticket collectors, chief train officers in passenger slow trains).

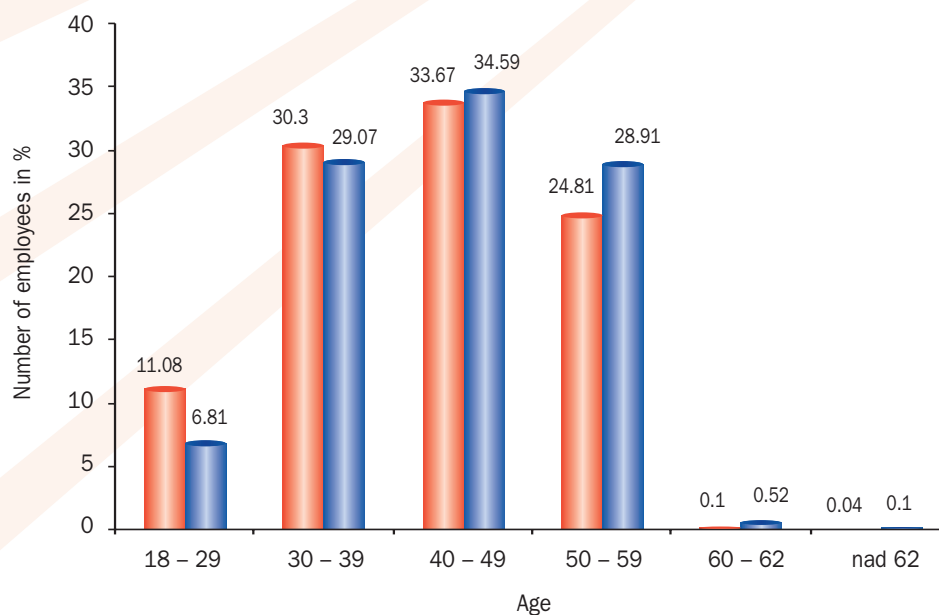
Comparison of education structure of the employees in 2005



As regards the education structure, in 2005 the number of employees with elementary education was reduced (by 1.39%) and also the number of employees with two-year apprenticeship was reduced significantly (by 3.25%), which is a favourable development. Another positive trend was seen in increase of employees with completed secondary education (by 1.20%) and university degree (by 0.47%). A long-term objective of the company is to improve the conditions for training and education and thus increase the number of employees with university education from 7.1% at least to the level of 10%, and to reduce the number of employees with elementary education from the level 3.18% under 1%.

The age structure of the company employees in 2005 was optimal in the categories of 30 – 39 years old (1,388 employees) and 40 – 49 years old (1,652 employees). On the contrary, there is a negative ration between the employees in the category of 18 – 29 (325 employees) and the category of 50 – 59 (1,380 employees). The future trend should gradually improve this ratio for the benefit of the employees in the lower-age category.

Age structure of ZSSK employees in 2005



■ Number of employees in % as on 31 January 2005

■ Number of employees in % as on 31 December 2005

Business Results

Economic results

(pursuant to Slovak Accounting Standards)

In 2005 ZSSK achieved a total profit of SKK 8,234,817 thousand, while the costs amounted to SKK 8,765,760 thousand. The economic result of ZSSK was a loss in the amount of SKK 530,943 thousand, which was lower against the plan (a loss of SKK 987,235 thousand) by SKK 456,292 thousand.

(million SKK)

	Plan 2005	Actual figures 2005	Difference against pain	% of fulfilment
Costs	8,582.8	8,765.7	182.9	102.13 %
Revenues	7,595.6	8,234.8	639.2	108.42 %
Profit/Loss	-987.2	-530.9	456.3	

The economic result of ZSSK in 2005 was affected by:

- costs higher by SKK 182.909 thousand
- revenues higher by SKK 639.201 thousand

Costs – development against the plan:

Consumed purchases:

- consumption of material grew by SKK 42,391 thousand,
- consumption of diesel oil declined by SKK 5,494 thousand,
- energy consumption declined by SKK 11,533 thousand, of which traction energy consumption declined by SKK 4,438 thousand and other energy consumption decreased by SKK 7,095 thousand,
- costs on sold goods grew by SKK 529 thousand.

Total services:

- repairs and maintenance grew by SKK 39,756 thousand,
- travelling expenses grew by SKK 7,273 thousand,
- representation costs grew by SKK 534 thousand,
- other service together decreased by SKK 15,481 thousand.

Personnel costs:

- wage costs decreased by SKK 4,377 thousand,
- statutory and other social costs (account no. 527) – costs on severance payments, social compensations and reimbursement for loss of wage in the amount of SKK 15,780 thousand were accounted outside the plan.

Taxes and charges:

- other taxes and charges grew by SKK 3,536 thousand,
- property tax decreased by SKK 5,981 thousand.

Other operating costs

- sold material grew by SKK 816 thousand,
- other operating costs declined by SKK 152 thousand.

- Outside the plan:
 - contractual charges, penalties and interests on overdue payment in the amount of SKK 266 thousand,
 - other charges, penalties and interest on overdue payment in the amount of SKK 387 thousand.

Depreciation, reserves and adjusting entries to operating costs

- depreciation of long-term intangible and tangible assets decreased by SKK 63,843 thousand,
- creation of statutory and other reserves grew by SKK 63,081 thousand,
- creation of statutory and other adjusting entries grew by SKK 2,982 thousand.

Financial costs, reserves and adjusting entries to financial costs

- interests decreased by SKK 32,093 thousand,
- exchange- rate loss grew by SKK 31,845 thousand,
- other financial costs grew by SKK 820 thousand,
- creation of reserves planned in the amount of SKK 41,208 thousand, was not accounted (change in accounting).

Extraordinary costs – grew by SKK 166,014 thousand.

Revenues – development against the plan:

Revenues from own performance and goods:

- revenues from transport decreased by SKK 113,774 thousand,
- revenues from sale of services grew by SKK 115,594 thousand,
- revenues from goods grew by SKK 772 thousand.

Other operation yields:

- revenues from sale of material decreased by SKK 3,752 thousand,
- compensations for public service obligations in passenger transport grew by SKK 350,000 thousand,
- other operating revenues grew by SKK 5,541 thousand,
- other revenues and contractual charges and penalties, as well as revenues from written-off receivables credited outside the plan in the amount of SKK 5,780 thousand.

Reserves and adjusting entries to operating revenues

- accounting of statutory reserves grew by SKK 7,420 thousand,
- accounting of other reserves decreased by SKK 5,324 thousand.

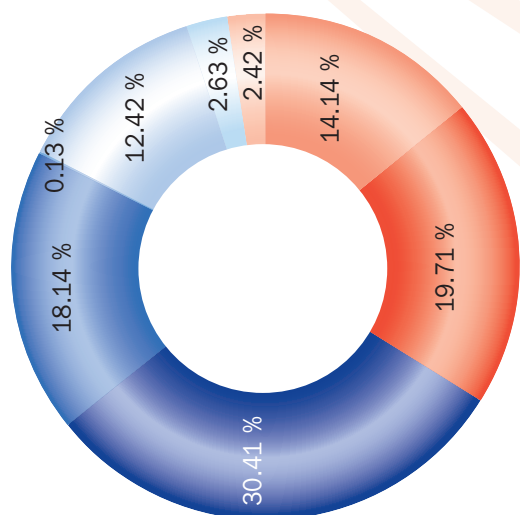
Financial revenues, reserves and adjusting entries to financial revenues

- interests grew by SKK 138 thousand,
- exchange-rate profit grew by SKK 88,703 thousand,
- revenues from swap operations grew by SKK 1,645 thousand,
- other financial revenues grew by SKK 636 thousand,
- outside plan revenues from financial investments were accounted in the amount of SKK 2,607 thousand, Eurofima dividends,
- dissolution of reserves into interests accounted as costs, that were created in December 2004, declined by SKK 11,883 thousand.

Extraordinary revenues:

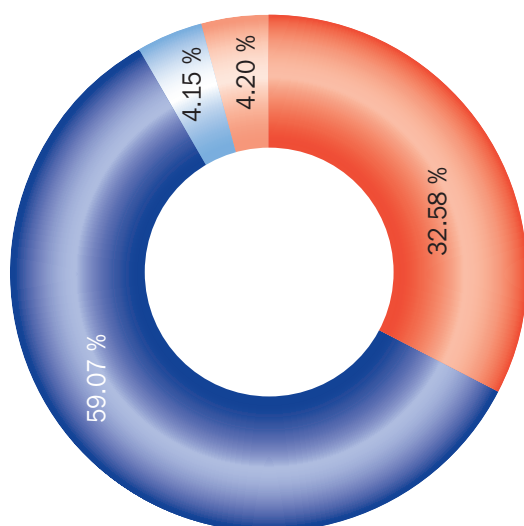
- accounted outside plan in the amount of SKK 193,512 thousand.

Structure of costs



- Consumed purchases
- Track access charges
- Services (others)
- Personnel costs
- Other costs on business activity
- Depreciation, reserves and adjusting entries to costs on business activity
- Financial costs
- Extraordinary costs

Structure of revenues



- Revenues from own business and goods
- Other business revenues
- Reserves and adjusting entries to business revenues
- Other revenues, total

Use of Contractual Compensation of the Loss for PSO in 2005

	2005 (in thousand SKK)
ŽSR – track access charges	1,763,809
Services purchased from ZSSK Cargo:	
– traction energy	611,511
– repairs and maintenance	1,220,484
– other services	245,818
Total services purchase from ZSSK Cargo	2,077,813
Substitute bus transport	8,390
Services of WGS	84,709
Personnel costs	565,279
Compensations for PSO in 2005	4,500,000
Settlement of current credit	350,000
Total use of PSO compensation	4,850,000

In terms of the Budget Provision of the Ministry of Finance of the Slovak Republic no. 38 ZSSK had allocated means from the state budget in December 2005 in the amount of SKK 350.0 million. They were used for partial settlement of current credit drawn in the course of the year to cover the uncovered loss from public service obligations in passenger transport.

Transfer of Assets in 2005

Sale of immovable property

Subject	Price in SKK	Approved by a decision of the shareholder
Sale of a former part of ZSSK, Tatra Funicular Lines buyer – Tatranské lanové dráhy, a. s. (Tatra Funicular Lines) Bratislava	184,868,597	no. 99/RA-2005, on 22 December 2005

Data on remunerations of the statutory and supervisory bodies of ZSSK

Amount of remuneration of body members (gross) in thousand SKK	2005
Members of the Board of Directors (the statutory body)	1,164
Members of the Supervisory Board (the control body)	1,200

Acquisition of Long-Term Tangible and Intangible Assets

The decision of the sole shareholder – MTPT SR, file no.: 96/ RA-2005, of 20 December 2005, approved increase of investment expenses in the Investment Plan of ZSSK for 2005 from the amount of SKK 534,956 thousand into SKK 696,781 thousand.

Type of investment	Volumes approved by the Board of Directors in thousand SKK	Accounted in SAP R/3 in 2005 in thousand SKK	% accounted out of annual volume	Investments into long-term tangible and intangible assets in thousand SKK
Passenger coaches	618,295	617,546	99.88	624,444
Motive power units	39,496	34,332	86.93	39,588
IT + SZNR	20,800	9,899	47.59	3,540
Buildings	7,719	7,619	98.70	7,263
Intangible investments	10,471	9,250	88.34	47
Total	696,781	678,646	97.40	674,882

The investments were procured in accordance with the Investment Plan for 2005 and were funded from own resources, except for the project ZSD99621SD (modernisation of passenger coaches), which was financed by EUROFIMA.

The integration of investments into accounting and assets of individual units began after evaluation of the assets of ZSSK, i.e. since July 2005. Investments into construction delimited from Železničná spoločnosť, a.s. were integrated as well as new investments realised in 2005. In 2005 investments in the total amount of SKK 954,815 thousand were integrated into usage, of which new investments starting in 2005 amounted to SKK 674,882 thousand.

Data on development (in thousand SKK)

Indicator	As on 1. January 2005	As on 31 December 2005
Development costs, capitalized	379	423
Total	379	423

The initial data included costs for transformation projects on regional lines and technical documentation of machines and construction repairs. The additions include costs for technical documentation for coaches reconstruction.

Ownership Interests of ZSSK (as on 31 December 2005)

Subject	Number of shares against equities as on 31 December 2005	Share against equities in %	Acquisition price of the ownership interest in thousand SKK	As on 31 December 2005
EUROFIMA	1,300	0.5 %	174,883	147,954
Bureau Central de Clearing, s. c. r. l. Brussels (BCC) **	1	0.66 %	32	28
WAGON SLOVAKIA, a.s. Košice	20	20.00 %	220	598

Settlement of the book loss in 2005

The General Assembly during its regular session held on 21 June 2006 in Bratislava adopted a resolution on accounting of loss from 2005 in the amount of SKK 530.9 million to the account no. 429 – unsettled loss of previous periods.

Independent auditor's report

Železničná spoločnosť Slovensko, a.s.
a joint stock company with the shareholder's equity of SKK 6,400,000,000

Registered seat of the company: Bratislava

Company Identification Number: 35 914 939

We have audited the accompanying financial statements of the company Železničná spoločnosť Slovensko, a.s. elaborated as to 31 December 2005 for the period of 1 January 2005 till 31 December 2005. The financial statements are the responsibility of the statutory body of the company. 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 of us to plan and conduct the audit so as to acquire sufficient assurance that the financial statements do not contain material inconsistencies. The audit includes verification of completeness and demonstrability of the data on items and information shown in the financial statements, carried out by a selection method. Besides, the audit includes evaluation of correctness and suitability of the accounting principles and the significant estimates stated by the company, as well as assessment of the overall presentation of the financial statements. We consider the audit that was conducted as a sufficient basis for expressing our opinion.

We draw the attention to the point L in the Notes to the financial statements. According to the Collective Agreement the company assumes liabilities related to payment of remunerations at life anniversaries, retirement and severance payments in the estimated discount amount of ca SKK 125 million, which, however, was not shown in the financial statements.

In our opinion, and with the above-mentioned exception, the financial statements present fairly, in all material respects, the overview of the property, liabilities, shareholders' equity and the financial position of the company

Železničná spoločnosť Slovensko, a.s.
Bratislava
as on 31 December 2005

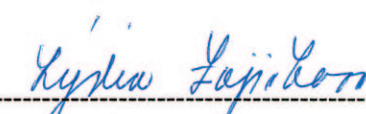
and its business results for the period started on 1 January 2005 and ended on 31 December 2005 in accordance with the Act on Accounting and relevant regulations of the Slovak Republic.

Bratislava, 12 April 2006

IB Grant Thornton Audit, s.r.o.
Panská 14, 811 01 Bratislava
Licence SKAu no. 28



Dkfm. Fritz Himmer
Executive Officer


Ing. Lýdia Zajíčková
Auditor, licence SKAu no. 918

Balance Sheet (Slovak Accounting Standards)

Description a	ASSETS SIDE b	Line no. c	Current accounting period			Immediately preceding accounting period Net 4
			Gross 1	Adjustment 2	Net 3	
	Total assets line 002 + line 003 + line 032 + line 062	001	13,772 055	646,712	13,125,343	0
A.	Receivables for the subscribed shareholders' equity (353)	002	0		0	0
B.	Fixed assets line 004 + line 013 + line 023	003	12,594,385	643,730	11,950,655	0
B. I.	Long-term intangible assets, sum total (lines 005 to 012)	004	32,896	9,826	23,070	0
B. I. 1.	Organisation costs (011) – /071, 091A/	005	0	0	0	0
2.	Capitalized development costs (012) – /072, 091A/	006	424	128	296	0
3.	Software (013) – /073, 091A/	007	28,514	9,369	19,145	0
4.	Valuable rights (014) – /074, 091A/	008	996	329	667	0
5.	Goodwill (015) – /075, 091A/	009	0	0	0	0
6.	Other long-term intangible assets (019, 01X) – /079, 07X, 091A/	010	0	0	0	0
7.	Acquired long-term intangible assets (041) – 093	011	2,962	0	2,962	0
8.	Advance payment for long-term intangible assets (051) – 095A	012			0	0
B. II.	Long term tangible assets, sum total (line 014 to 022)	013	12,412,909	633,904	11,779,005	
B. II. 1.	Land (031) – 092A	014	100,699	0	100,699	0
2.	Buildings (021) – /081, 092A/	015	225,970	5,608	220,362	0
3.	Independent movable property and sets of movables property (022,023) – /082,083,092A/	016	11,860,454	627,971	11,232,483	0
4.	Perennial corps (025) – /085, 092A/	017		0	0	0
5.	Livestock and draught animals (026) – /086, 092A/	018	0	0	0	0
6.	Other long-term tangible assets (029, 02X, 032) – /089, 08X, 092A/	019	4,236	325	3,911	0
7.	Acquired long-term tangible assets (042) – 094	020	199,083	0	199,083	0
8.	Advance payment for long-term tangible assets (052) – 095A	021	22,467	0	22,467	0
9.	Adjusting entry to the acquired assets +/- 097 +/- 098	022	0	0	0	0
B. III.	Long-term Financial Investments, sum total (line 024 to 031)	023	148,580	0	148,580	0
B. III.1.	Shares and ownership interests in subsidiaries (061) – 096A	024	0	0	0	0
2.	Shares and ownership interests in associates (with substantial influence) (062) – 096A	025		0	0	0
3.	Other long-term securities and shares (063, 065) – 096A	026	148,580	0	148,580	0
4.	Loans to accounting entity in consolidation field (066) – 096A	027	0	0	0	0
5.	Other long-term financial assets (067, 069, 06XA) – 096A	028	0	0	0	0
6.	Loans with maturity period max. 1 year (066A, 067A, 06XA) – 096A	029	0	0	0	0
7.	Acquired long-term financial assets (043) – 096A	030	0	0	0	0
8.	Advance payment for long-term financial assets (053) – 095A	031	0	0	0	0

Description a	ASSETS SIDE b	Line no. c	Current accounting period			Immediately preceding accounting period Net 4
			Gross 1	Adjustment 2	Net 3	
C.	Current (circulating) assets lines 033 + 041 + 048 + 056	032	1,174,884	2,982	1,171,902	0
C. I.	Total inventory (line 034 to 040)	033	170,206	0	170,206	0
C. I. 1.	Material (112, 119, 11X) – /191, 19X/	034	169,863		169,863	0
2.	Work-in-progress and semi-finished products (121, 122, 12X) – /192, 193, 19X/	035	0		0	0
3.	Customer manufacturing with anticipated period of completion longer than one year 12X – 192A	036	0		0	0
4.	Products (123) – 194	037	0		0	0
5.	Animals (124) – 195	038	0		0	0
6.	Goods (132, 13X, 139) – /196, 19X/	039	343		343	0
7.	Advance payments for inventory (314A) – 391A	040			0	0
C. II.	Total long-term receivables (line 042 to 047)	041	0	0	0	0
C. II.1.	Trade receivables (311A, 312A, 313A, 314A, 315A, 31XA) – 391A,	042	0		0	0
2.	Receivables from controlled person and controlling person (351A) – 391A	043	0		0	0
3.	Other receivables within consolidated whole (351A) – 391A	044	0		0	0
4.	Receivables from partners, members and associations (354A, 355A, 358A, 35XA) – 391A	045	0		0	0
5.	Other receivables (335A, 33XA, 371A, 373A, 374A, 375A, 376A, 378A) – 391A	046	0		0	0
6.	Deferred tax receivables (481 A)	047	0		0	0
C. III.	Total short-term receivables (line 049 to 055)	048	969,048	2,982	966,066	0
C. III.1.	Trade receivables (311A, 312A, 313A, 314A, 315A, 31XA) – 391A	049	465,396	2,982	462,414	0
2.	Receivables from controlled person and controlling person (351A) – 391A	050	0		0	0
3.	Other receivables within consolidated whole (351A) – 391A	051	0		0	0
4.	Receivables from partners, members and association (354A, 355A, 358A, 35XA, 398A) – 391A	052	0		0	0
5.	Social security (336) - 391A	053	0		0	0
6.	State tax receivables (341, 342, 343, 345) – 391A	054	281,696		281,696	0
7.	Other receivables (335A, 33XA, 371A, 373A, 374A, 375A, 376A, 378A) – 391A	055	221,956		221,956	0
C.IV.	Total financial accounts (line 057 to 061)	056	35,630	0	35,630	0
C.IV.1.	Cash in hand (211, 213 + 21X)	057	3,705		3,705	0
2.	Bank accounts (221A, 22X +/-261))	058	31,925		31,925	0
3.	Bank accounts bound for more than one year 22XA	059	0		0	0
4.	Short-term financial assets (251, 253, 256, 257, 25X) – /291, 29X)	060	0		0	0
5.	Short-term financial assets in acquisition (259) – 291	061	0		0	0
D.	Total accrued and deferred items (line 063 to 064)	062	2,786	0	2,786	0
1.	Deferred expenses (381, 382)	063	2,658		2,658	0
2.	Accrued revenues (385)	064	128		128	6
	Control number total (line 001 to 064)	888	55,085,435	2,586,850	52,498,585	0

Description	LIABILITY SIDE	Line no.	Current accounting period	Immediately preceding accounting period
a	b	c	5	6
	Total shareholders' equity and liabilities line 066 + line 086 + line 116	065	13,125,343	0
A.	Shareholders' equity line 067+ line 071+ line 078 + line 082 + line 085	066	7,290,292	0
A. I.	Total share capital (line 068 to 070)	067	6,400,000	0
A. I. 1.	Share capital (411 alebo +/-491)	068	6,400,000	0
2.	Own shares and own business shares (-/-252)	069	0	0
3.	Changes of share capital +/-419	070		0
A. II.	Total capital funds (line 072 to 077)	071	1,428,601	0
A. II.1.	Share premium (412)	072	0	0
2.	Other capital funds (413)	073	782,392	0
3.	Legal reserve fund (Non-distributable fund) from capital contributions (417, 418)	074	630,000	0
4.	Asset and liability overvaluation difference in valuation (+/-414)	075	16,209	0
5.	Financial investments difference in valuation (+/-415)	076	0	0
6.	Merger and division overvaluation difference in valuation (+/-416)	077	0	0
A. III.	Total funds from profit (line 079 to line. 081)	078	0	0
A.III.1.	Legal reserve fund (421)	079	0	0
2.	Non-distributable fund (422)	080		0
3.	Statutory and other funds (423, 427, 42X)	081	0	0
A. IV.	Business results of previous years (line 083 to. 084)	082	-7,366	0
A.IV.1.	Retained earnings from previous years (428)	083	0	0
2.	Accumulated loss from previous years (-/-429)	084	-7,366	0
A. V.	Business results of current accounting period /+ -/ line 001 - (line 067 + line 071 + line 078 + line 082 + line 086 + line 116)	085	-530,943	0
B.	Liabilities line 087 + line 091 + line 102 + line 112	086	5,804,351	0
B. I.	Total reserves (line 088 to 090)	087	428,081	0
B. I. 1.	Legal reserves (451A)	088	0	0
2.	Other long-term reserves (459A, 45XA)	089	0	0
3.	Short-term reserves (323, 32X, 451A, 459A, 45XA)	090	428,081	0
B. II.	Total long-term liabilities (line 092 to 101)	091	1,817,894	0
B. II.1.	Long-term trade liabilities (479A)	092	0	0
2.	Long-term unbilled deliveries (476A)	093	0	0
3.	Long-term liabilities to controlled person and controlling person (471A)	094	0	0
4.	Other long-term liabilities within consolidated whole (471A)	095	0	0
5.	Long-term advance payments received (475A)	096	0	0
6.	Long-term bills of exchange to be settled (478A)	097	0	0
7.	Issued bonds (473A, -/-255A)	098	0	0
8.	Liabilities from social fund (472)	099	1,190	0
9.	Other long-term liabilities (474A, 479A, 47XA, 372A, 373A, 377A)	100	1,816,704	0
10.	Deferred tax liability (481A)	101	0	0

Description	LIABILITY SIDE	Line no.	Current accounting period	Immediately preceding accounting period
a	b	c	5	6
B. III.	Total short-term liabilities (line 103 to 111)	102	796,671	0
B.III.1.	Trade liabilities (321, 322, 324, 325, 475A, 478A, 479A)	103	629,107	0
2.	Unbilled deliveries (326, 476A)	104	10,860	0
3.	Liabilities to controlled person and controlling person (361A, 471A)	105	0	0
4.	Other liabilities within consolidated whole (361A, 36XA, 471A, 47XA)	106	0	0
5.	Liabilities to partners and association (364, 365, 366, 367, 368, 398A, 478A, 479A)	107	0	0
6.	Liabilities to employees (331, 333, 33X, 479A)	108	89,832	0
7.	Liabilities from social security (336A, 479A)	109	53,905	0
8.	Tax liabilities and subsidies (341, 342, 343, 345, 346, 347, 34X)	110	10,772	0
9.	Other liabilities (372A, 373A, 377A, 379A, 474A, 479A, 47X)	111	2,195	0
B. IV.	Total bank loans and financial assistance (line 113 to 115)	112	2,761,705	0
B.IV.1.	Long-term bank loans (461A, 46XA)	113	1,050,055	0
2.	Current bank loans (221A, 231, 232, 23X, 461A, 46XA)	114	1,711,650	0
3.	Short-term financial assistance (241, 249, 24X, 473A, -/-255A)	115	0	0
C.	Total accrued and deferred items (line 117 to 118)	116	30,700	0
C. I. 1.	Accrued expenses (383)	117	27,359	0
2.	Deferred revenues (384)	118	3,341	0
	Control number total (line 065 to 118)	999	53,001,620	0

Profit and Loss Statement (Slovak Accounting Standards)

Description a	Text b	Line no. c	Actual	
			current accounting period 1	immediately preceding accounting period 2
I.	Revenues from sale of goods (604)	01	1,772	0
A.	Acquisition costs for sold goods (504)	02	1,329	0
+	Trade margin line 01 - line 02	03	443	0
II.	Production line 05 + line 06 + line 07	04	2,683,016	0
II. 1.	Revenues from sale of own products and services (601, 602)	05	2,681,430	0
2.	Change of state of internal-organisational inventory (+/- accounting group 61)	06	0	0
3.	Capitalization (accounting group 62)	07	1,586	0
B.	Production consumption line 09 + line 10	08	5,631,149	0
B. 1.	Consumption of material, energy and other non-storable deliveries (501, 502, 503)	09	1,238,368	0
B. 2.	Services (accounting group 51)	10	4,392,781	0
+	Added value line 03 + line 04 - line 08	11	-2,947,690	0
C.	Total personnel costs line 13 to 16	12	1,589,951	0
C. 1.	Wage costs (521, 522)	13	1,129,001	0
C. 2.	Remuneration for the members of company bodies and association (523)	14	2,364	0
C. 3.	Social security costs (524, 525, 526)	15	405,153	0
C. 4.	Social costs (527, 528)	16	53,433	0
D.	Taxes and charges (accounting group 53)	17	5,396	0
E.	Depreciation of long-term tangible and intangible assets (551)	18	657,346	0
III.	Revenues from sale of long-term assets and material (641, 642)	19	2,448	0
F.	Book value of sold long-term assets and material (541, 542)	20	2,216	0
IV.	Use and cancellation of reserves recorded in operating income and recognition of complex deferred expenses (652, 654, 655)	21	341,539	0
G.	Creation of reserves for business activity and accounting of complex deferred expenses (552, 554, 555)	22	428,081	0
V.	Accounting and cancellation of adjusting entries into operating income (657, 658, 659)	23	0	0
H.	Creation of adjusting entries into costs from business activity (557, 558, 559)	24	2,982	0
VI.	Other operating income (644, 645, 646, 648)	25	4,861,841	0
I.	Other costs for business activity (line 543 to 546, 548, 549)	26	4,176	0
VII.	Transfer of operating income (-) (697)	27	0	0
J.	Transfer of operating costs (-) (597)	28	0	0
*	Business result of business activity line 11 - line 12 - line 17 - line 18 + line 19 - line 20 + line 21 - line 22 + line 23 - line 24 + line 25 - line 26 + (- line 27) - (- line 28)	29	-432,010	0
VIII.	Revenues from sale of securities and shares (661)	30	0	0
K.	Sold securities and shares (561)	31	0	0
IX.	Revenues from long-term financial assets line 33 + line 34 + line 35	32	2,607	0
IX. 1.	Revenues from shares and ownership interests in controlled person and companies with substantial influence (665A)	33	0	0
2.	Revenues from other long-term securities and shares (665A)	34	0	0
3.	Revenues from other long-term financial assets (665A)	35	2,607	0
X.	Revenues from short-term financial assets (666)	36	0	0

Description a	Text b	Line no. c	Actual	
			current accounting period 1	immediately preceding accounting period 2
L.	Costs of short-term financial assets (566)	37	0	0
XI.	Revenues from overvaluation of securities and revenues from derivative operations (664, 667)	38	7,895	0
M.	Costs on overvaluation of securities and costs on derivative operation (564, 567)	39	5,157	0
XII.	Revenues interests (662)	40	391	0
N.	Cost interest (562)	41	164,125	0
XIII.	Foreign exchange gains (663)	42	111,506	0
O.	Foreign exchange losses (563)	43	38,455	0
XIV.	Other revenues from financial activity (668)	44	889	0
P.	Other costs of financial activity (568, 569)	45	22,949	0
XV.	Use and cancellation of reserves in revenues from financial activity (674)	46	27,401	0
Q.	Creation of reserves for financial activity (574)	47	0	0
XVI.	Accounting and cancellation of adjusting entries into revenues from financial activity (679)	48	0	0
R.	Creation of adjusting entries into costs of financial activity (579)	49	0	0
XVII.	Transfer of financial revenues (-) (698)	50	0	0
S.	Transfer of financial costs (-) (598)	51	0	0
*	Business results from financial activity line 30 - 31 + 32 + 36 - 37 + 38 - 39 + 40 - 41 + 42 - 43 + 44 - 45 + 46 - 47 + 48 - 49 + (- 50) - (- 51)	52	-79,997	0
T.	Income tax from current activity line 54 + line 55	53	0	0
T. 1.	– due (591, 595)	54	0	0
2.	– deferred (+/- 592)	55	0	0
**	Business results from current activity line 29 + line 52 – line 53	56	-512,007	0
XVIII.	Extraordinary revenues (accounting group 68)	57	193,512	0
U.	Extraordinary costs (accounting group 58)	58	212,448	0
V.	Income tax on extraordinary activity line 60 + line 61	59	0	0
V. 1.	– due (593)	60	0	0
2.	– deferred (+/- 594)	61	0	0
*	Business results from extraordinary activity line 57 – line 58 – line 59	62	-18,936	0
Z.	Transfer of shares on business results to partners (+/- 596)	63	0	0
***	Business results for the current accounting period (+/-) line 56 + line 62 – line 63	64	-530,943	0
	Control number, total (line 01 to line 64)	99	22,386,160	0

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