

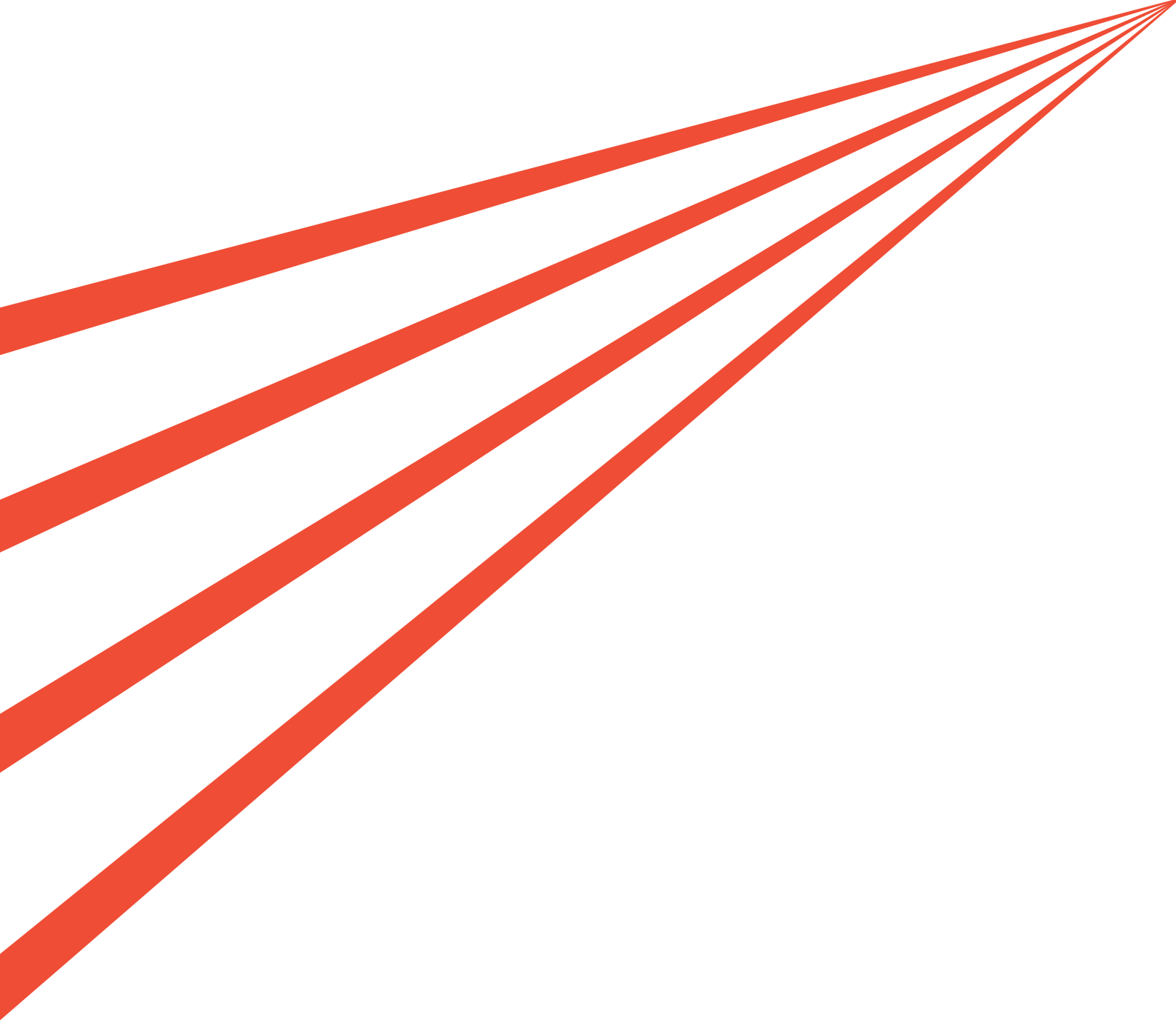


ANNUAL REPORT

OF ŽELEZNIČNÁ SPOLOČNOSŤ SLOVENSKO, A. S.



2007



ŽELEZNIČNÁ SPOLOČNOSŤ SLOVENSKO

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ŽELEZNIČNÁ SPOLOČNOSŤ SLOVENSKO

Annual Report of Železničná spoločnosť Slovensko, a. s. 2007

In Bratislava, on 7 May 2008

For and on behalf of the company:

Ing. Pavol Gábor

Ing. Ján Kováčik

Železničná spoločnosť Slovensko, a.s.
Rožňavská 1
832 72 Bratislava

7 May 2008

Information on audit of the Annual Report

Based on our audit carried out in terms of Act on Accounting 431/2004 Coll., § 20, Act on Auditors and SKAU 540/2007 Coll. and in accordance with the International Standards on Auditing we have ascertained that the data stated in the Annual Report for 2007 are in compliance with the financial statement and that the financial statement, enclosed to the Annual Report, is complete and in accordance with the one we have audited.

Based on the above mentioned facts, we express our consent with publishing the Independent Auditor's Report concerning the enclosed financial statement in the Annual Report.

Yours sincerely,

Data Eko Audit Consult Žilina, spol. s r.o.
Háľkova 3, 010 01 Žilina
Licence SKAU no. 39
Companies' Register of the District Court of Žilina
Section: Sro, Entry no. 1288/L

Responsible auditor:
Ing. Viera Jancová
Licence SKAU no. 189

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List of Abbreviations

CER	Community of European Railway and Infrastructure Companies
EC	Euro City train
EÚ	European Union
IC	Inter City train
ICT	Information and communication technologies
MTPT SR	Ministry of Transport, Post and Telecommunications of the Slovak Republic
MF SR	Ministry of Finance of the Slovak Republic
OSJD	Organisation for Cooperation of Railways
PSO	Public Service Obligation
RS	Rolling stock
SAP	Corporate information system
SR	Slovak Republic
TSI	Technical Specification of Interoperability
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

Information on the Standing and Development of the Company

Železničná spoločnosť Slovensko, a.s. (ZSSK) is still a very young company. 2007 was only the third year of its existence. However, it is not only a young, but also a modern and ambitious company. In other words it means that it should be also a prospering company and its economic indicators should at least achieve balanced business results. We have been approaching this objective but have not reached it so far, because the loss in 2007 amounted to almost 136 million. In 2007 we transported fewer passengers than planned. We managed to save up part of the costs, but it is not and cannot be the right way of accomplishing balanced economic results. On one hand rolling stock maintenance and refurbishment costs are increasing as well as costs on infrastructure use charges, electric energy supply, provision of various services, while on the other hand, the income from services delivered in passenger transport is in the decline.

The company seeks reserves also internally, it strives to render passenger transport more attractive by different improvements, but we are slowly getting short of breath and the possibilities are getting thinner.

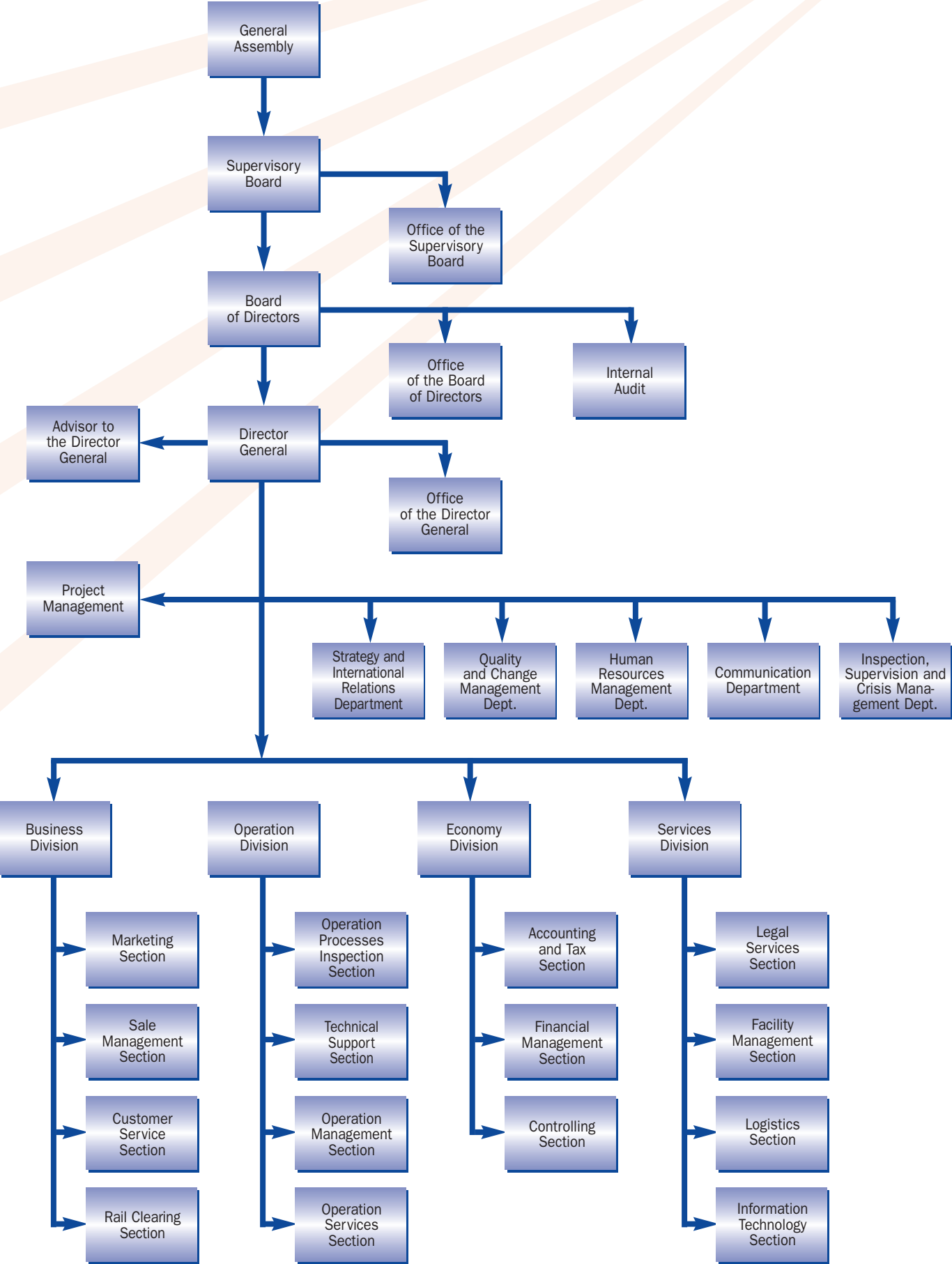
Every year, when preparing the train timetable we undergo a whole series of negotiations with representatives of regional authorities and take into consideration remarks received from citizens. Each new change of timetable shows our effort to remove "empty spaces" between train connections and various illogical situations in passenger traffic, when for instance a train arrives to a station shortly after a connecting vehicle departed. However, unsatisfied passengers still remain a reality. Unfortunately, we do not dispose of such a number of trains to be able to provide for a connection from and to each train. Our product portfolio faces similar situation. Our special prices are to attract as many people as possible, however, when evaluating individual products, we have discovered that the number of new passengers is not growing and a part of those previously attracted by train transport have been leaving to our competitors and others passengers use different products to travel by rail, which might be more advantageous for them.

More and more often, different statistics have been evidencing the growing number of automobiles in Slovakia and the fact that individual car transport slices the share of passengers and also the share of revenues of public transport, which means also of rail transport. Indeed, no wonder that people prefer to sit in a comfort of a family car rather than in a train. A great part of our coaches is obsolete, old-fashioned and faulty. The rolling stock fleet of the company includes even 35-year-old coaches. The average age of all coaches is around 25 years. Coaches which underwent refurbishment in the last years are less than ten years old. However, their production still dates back as far as to 1970s.

Therefore, the company has prepared a renewal of the rolling stock fleet in the estimated amount of SKK 6.9 billion. Our rolling stock renewal programme will not be based only on upgrading of old coaches, but the plan is to purchase new trains. In particular, the plan includes purchase of ten suburban electric double-deck train sets with own propulsion and also ten inter-regional diesel train sets also with own propulsion. They should be supplemented by two new locomotives and ten modified locomotives. New vehicles will be used mainly in suburban and interregional transport, where we assume the greatest potential of passengers. Rolling stock fleet modernisation will be co-financed from the resources of the European Union within the Operational Programme Transport for the programming period of 2007 to 2013, which allocated more than EUR 80 million for the purpose. Of course, the project could not be implemented without the support of the government and coordination of the Ministry of Transport, Post and Telecommunication and the Ministry of Finance.

Rail transport is the most environmentally friendly and safest mode of transport. However, we realise that also construction of motorways should benefit from the inflow of foreign investments to Slovakia. We respect the need. We are not opposed, as well as we do not oppose a healthy competition of transport systems. Nevertheless, every transport mode should have the same and non-discriminating conditions to run its business and fight for customers. The current competitive environment on the Slovak transport market is different. The track access charges put rail mode into a role of an outsider. The State proclaims interest in public railway transport and safety of passenger transport. The declared interest has got a concrete shape by full compensation of ordered public services or support provided within the Operational Programme Transport for the programming period of 2007 to 2013. However, clearly delimited and equal economic conditions on transport market, more significant strengthening of public services which would reduce growth of individual car transport for instance by public transport timetable harmonisation, are still only awaited.

Organisational Structure



Board of Directors of the Company

ZSSK is incorporated in the Companies' 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, Post and Telecommunications.

The General Assembly is the supreme body of the company.

The Board of Directors is the statutory body of the company. It is authorised to act for and on behalf of the company in all matters and represents the company in front of 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. Milan CHÚPEK, PhD.

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. Igor KRŠKO

Member of the Board of Directors

Operation Division Director
of Železničná spoločnosť Slovensko, a.s.

Ing. Ján KOVÁČIK

Member of the Board of Directors

Service Division Director
of Železničná spoločnosť Slovensko, a.s.

Ing. Michal VEREŠ

Member of the Board of Directors

Director of Strategy and International Relations 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. Stanislav BOŘUTA

Chairman of the Supervisory Board

Ing. Milan MOJŠ

Vice Chairman of the Supervisory Board

Mgr. Matej AUGUSTÍN

Member of the Supervisory Board

JUDr. Miroslav BALÁŽ

Member of the Supervisory Board

Mgr. Jozef SCHMIDT

Member of the Supervisory Board

Ján GRIEČ

Member of the Supervisory Board

Scope of Business

ZSSK performs transport and commercial activities by rail. The scope of business of the company is as follows:

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

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

- Licence no.: 0950/2007/L to carry out transport services by rail, based on Decision of the Railway Regulatory Authority no. 5711/2006-ÚRŽD/Sk of 26 January 2007
- Licence no.: 01/2007/ŠD/L to carry out transport on a special line - Detská železnica (Children's Railway) in Košice, issued on 29 May 2007
- Trading licence no. Žo-2005/12195/2/Z25 of 16 March 2005
- Licence Deed no. OŽP-A/2005/48837-2/CR1
- Licence Deed no. OŽP-A/2005/48837-2/C
- Licence Deed no. Žo-2005/12193/2/Z25 of 16 March 2005
- Authorisation no. 3143/2005-ŠDÚ-E/Bt, file no. E-60/2005 of 23 December 2005
- Authorisation no. 1308/2005-ŠDÚ-K, file no. K-24/2005 of 1 July 2005
- Authorisation for welding of rolling stock no. 1307/2005-ŠDÚ-Zv/Jg, Sl, Sa, file no. Zv-13/2005 of 18 May 2005
- Authorisation no. 3346/2005-ŠDÚ-Z/Mu, file no. Z-07/2006
- Permission of the Regulatory Office for Network Industries no. 2005T 0017 of 31 May 2005

Passenger Transport

During the year 2007 **45,598 thousand passengers** were transported by rail, which meant reduction by 3,406 thousand passengers against the plan, i.e. the fulfilment of the plan in 93.05 %. In comparison with the last year 1,423 thousand passengers less were transported, i.e. decrease by 3.03 %, of which:

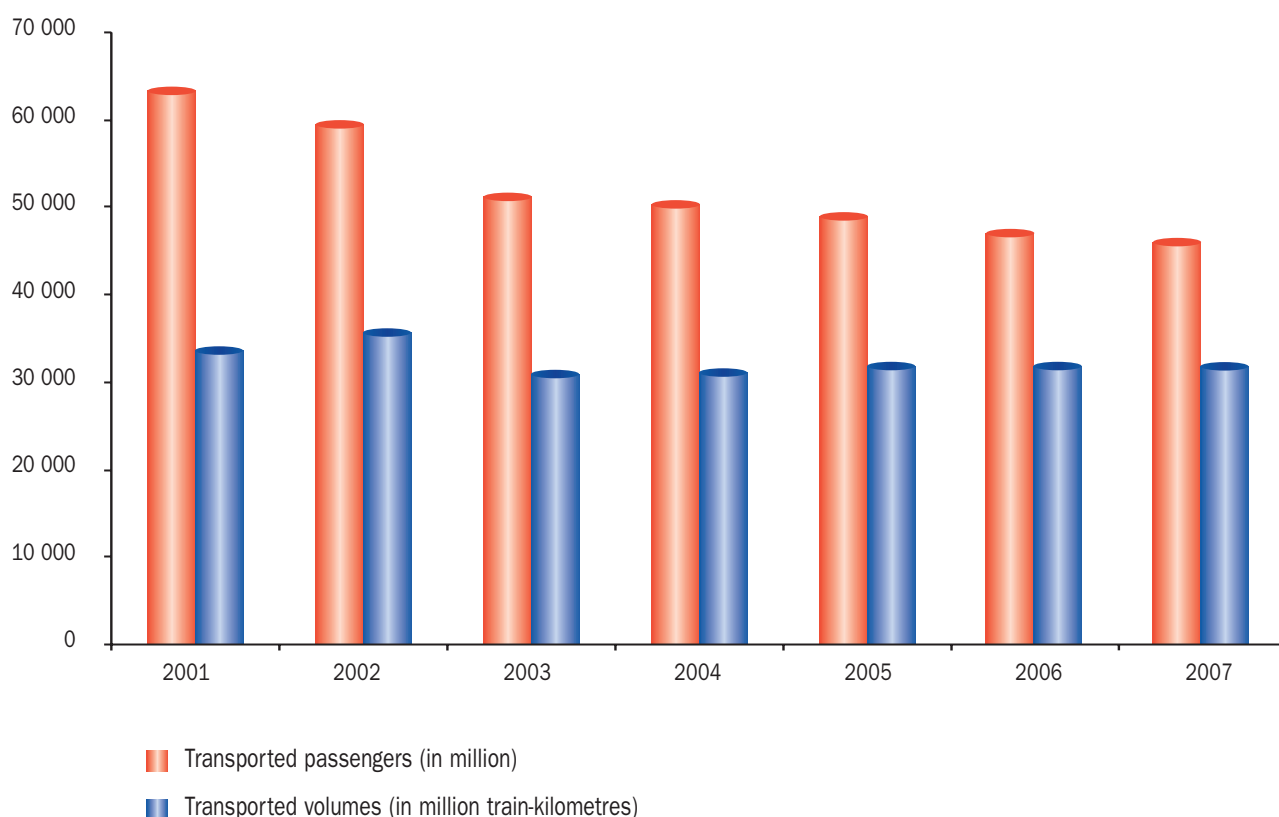
- the domestic transport recorded reduction of passengers against the plan by 3,492 thousand (-7.59 %) and a year-to-year reduction by 1,632 thousand passengers (-3.70 %),
- the international transport recorded increase against the plan by 86 thousand passengers (+2.87 %) and a year-to-year increase by 209 thousand passengers (+7.27 %).

The total transport volume in **passenger-kilometres** in 2007 amounted to **2,147,956 thousand passenger-km**, which meant reduction by 151,477 thousand against the plan (-6.59%). In comparison with the last year the transport volume decreased by 46,223 thousand (-2.11%).

The total transport volume in **train-kilometres** in 2007 amounted to **31,888,183 train-km**, which meant reduction by 38,258 train-km against the plan (- 0.12 %). In comparison with the last year the transport volume decreased by 94,433 train-km (-0.30 %)

Development of volumes in passenger transport:

Total passenger transport	2001	2002	2003	2004	2005	2006	2007	2007/2006
Transport volume (million passenger-km)	2,805.40	2,682.30	2,315.60	2,227.30	2,166.20	2,194.20	2,147.96	97.89 %
Passengers (million)	63.473	59.430	51.274	50.268	49.054	47.021	45.598	96.97 %
Transport volume (million train-km)	33.70	35.58	30.83	31.14	31.75	31.98	31.89	99.71 %



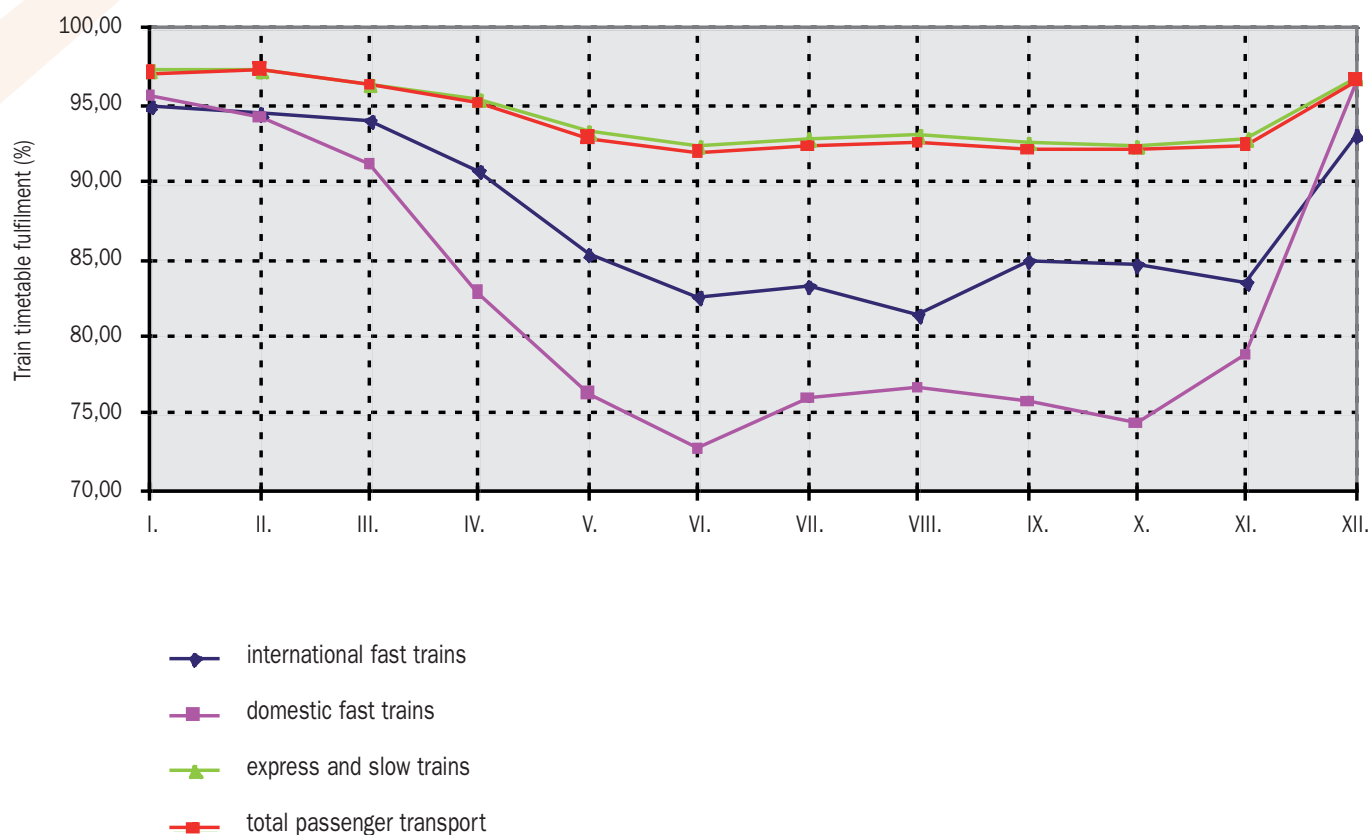
The decline in transport volumes was caused by:

- shift of a part of regular commuters to a different transport mode, especially to individual car transport, or to strengthening competition of bus transport (and low-cost plane companies),
- continuing modernisation of Corridor V and other exceptional traffic events (closure of lines, delays...),
- low quality and operational conditions of rolling stock.

The decisive qualitative indicator in passenger transport – observation of the train timetable – was set under the PSO contract as 90.0 %. In 2007 ZSSK fulfilled this indicator in 94.02 %, which was a result better by 4.02 % as compared to the set limit.

Type of train	Timetable fulfilment (%)			PSO contract fulfilment in %	Actual numbers 2006	Index 2007/2006
	PSO services	Actual numbers 2007	Difference			
– international fast trains	85.50	87.67	2.17	102.54	87.42	1.00
– domestic fast trains	80.50	81.70	1.20	101.49	82.53	0.99
– express and slow trains	93.20	94.36	1.16	101.24	94.89	0.99
Total passenger transport	90.00	94.02	4.02	104.47	94.48	1.00

Development of train timetable fulfilment in 2007



International Activities

International activities of ZSSK in 2007 were pursued in the spirit of continuing establishment of the company as an independent rail passenger operator on European transport market. Within its international activities, ZSSK participated especially in the work of international organisations active on regional level (associations G-4, V-4) and broader European and worldwide level (CER – Community of European Railway and Infrastructure Companies, UIC – International Union of Railways, and OSJD – Organisation for Railway Cooperation).

2007 was an important year also as regards European Community legislation concerning liberalisation of transport and interoperability of conventional rail systems. Employees of the company actively participated in the revision of drafted proposals of national versions of TSI, in close cooperation with experts of MTPT, ŽSR and ZSSK CARGO.

Besides technical issues, a crucial theme of international events within the railway sector was the legislative document adopted by the European Parliament – the so-called “Third railway package”. This document, and in particular the Regulation on Passengers’ Rights, substantially stipulates the quality and the level of services to be delivered by rail operators in passenger transport. As the package should become effective in 2009, ZSSK faces an uneasy task of getting ready for the new quality dimension of customer services on national and international level.

When preparing the above-mentioned legislative documents, ZSSK intensively cooperated with MTPT representing the Slovak Republic in the respective European institutions.

In the scope of cooperation with the International Union of Railways (UIC) the company employees contributed to the implementation of HyRAIL project. The project funded by the European Commission aims at reviewing the possibilities of the use of alternative fuels in railway sector, as diesel consumption in both passenger and freight transport by rail is still high. Thanks to a direct participation in the project, ZSSK had an opportunity to gain access to important knowledge based on research activities in this field in European and worldwide context. At the same time the company proved its exceptional expert reputation in the European railway technical sector.

In 2007 ZSSK cooperated with MTPT in such a crucial process as was the adoption of documentation regarding EU financial support for procurement of passenger rolling stock. This documentation stipulates the main priorities of Slovakia for drawing financial support from the EU funds in the period of 2007 – 2013. Thanks to them, our company will have the opportunity to use the EU funds to purchase new rolling stock for regional and interregional passenger transport. In this respect the active cooperation and support of the Community of European Railway and Infrastructure Companies (CER) should be pointed out, especially CER activities addressed to respective European institutions, supported and promoted by a visit of CER Executive Director in Slovakia in April 2007 and his negotiations with the MTPT State Secretary in the presence of ZSSK.

In the framework of bilateral relations of Železničná spoločnosť Slovensko, a.s. several bilateral meeting of Directors General of European railway undertakings were held in 2007, also at the occasion of meetings of international organisations. These meetings aimed at strengthening and internationalisation of cooperation in passenger transport, especially with railway undertakings from neighbouring countries. The trend of extended and more efficient international cooperation in passenger rail transport is very intensive and unambiguous, also in respect of the prepared European liberalisation of international passenger transport in 2010.

2007 may be considered successful as regards international activities, establishing good conditions for their further development in the future.

Strategic Objectives

Company vision

Our success is measured by satisfaction of customers who were persuaded by our **alternative to individual car transport**. We shall help people **reach their destinations safely and comfortably, searching for solutions** enabling them to **spend their journey time as usefully** as possible.

Our vision is to become a modern company and a leader on domestic rail passenger market which is well established on European market of passenger transport by rail, governed by the following principles:

PROFESSIONAL APPROACH

QUALITY

ECOLOGY

DYNAMISM

Company mission

ZSSK has been established as an alternative passenger transport focusing on the territory of the Slovak Republic. Our company delivers services in the field of passenger transport by rail. Customers of our company are broad public defined by concrete market segments. Our strength is the environmentally friendly aspect of transport and the effort to achieve continuous enhancement of service quality.

Company motto

Trains for people

Strategic objectives

Passenger rail transport in Slovakia plays an important role within the overall state transport infrastructure. Its significant advantages include in particular safety, environmentally friendly aspects, capacity possibilities to transport a large number of passengers at one time and a relative speed as compared to other land transport modes. In the last years railway transport has seen many changes and reforms aiming at more effective operation and enhancement of the level of delivered services.

However, the share of ZSSK in the total passenger volume has been declining for several years. The situation is caused by increasing standard of living of the population and its shifting to individual car transport. It is a strategic objective of our company to stop this decline, stabilize our customers and above all, attract new ones by stressing the advantages of rail transport. ZSSK considers delivery of services in competitive quality, establishment of a positive image and communication with the emphasis on potential customers, as well as creation of new philosophy in promotion and advertisement as the key issues of its strategic objectives. The target, however, can be fulfilled only when based on a marketing-oriented business policy and a substantial support in the form of renewal of technical base. The objective of ZSSK is to utilise the rolling stock more efficiently, renew and modernise the RS fleet, implement and integrate adequate ICT systems and establish a company learning from its lessons, which shall increase the chances to accomplish competitiveness of internal company resources and prevent unfavourable developments.

Besides these “externally” oriented goals, the company aims at achieving high-quality and efficient internal relations and processes, stemming from provision of high-quality internal services and improved internal communication leading to prosperity.

In order to ensure a long-term growth of the company, one of the main strategic goals of ZSSK is to maintain its financial stability, optimise service costs, positively influence inputs to ongoing corporate processes, maintain efficient financial management, and above all to increase revenues.

Certification is one of the strategic tools to maintain customers' confidence, enhance quality of delivered services and increase the competitiveness on the market. Currently the need of a systemized provision of requested quality of services is gradually growing, putting the emphasis on the needs of customers. In business respect, certification and introduction of the Quality Management System under market conditions is of a strategic and business importance. Permanent enhancement of the Quality Management System is the basic pre-condition for success of the company in the demanding competitive environment.

Human Resources

The planned number of employees as on 31 December 2007 was 4,885, while the actual number amounted to 4,818. As compared to 2006 when ZSSK had 4,893 employees, the figure reduced by 75 employees in 2007.

	2006	2007
Total no. of ZSSK employees	4,893	4,818
Managing processes	77	121
Business Division	1,203	1,172
Operation Division	3,253	3,229
Economy Division	145	88
Services Division	215	208

	2006	2007
Sex of employees	4,893	4,818
Men	3,014	2,952
Women	1,879	1,866

The average number of employees in 2007 was 4,863.87.

The average wage in ZSSK in 2007 reached the amount of SKK 22,313, which is an increase by SKK 1,127 as compared to 2006, i.e. by 5.32 %.

Age structure of the employees in 2007

Out of the total number of 4,818 employees, 327 were at the age of 18 – 29 (6.79 % of the total number), 1,324 employees at the age of 30 – 39 (27.48 %), 1,662 employees at the age of 40 – 49 (34.49 %), 1,456 employees at the age of 50 – 59 (30.22 %), 49 employees at the age of 60 – 62 (1.02 %) and 0 employees above 62 (0.00 %).

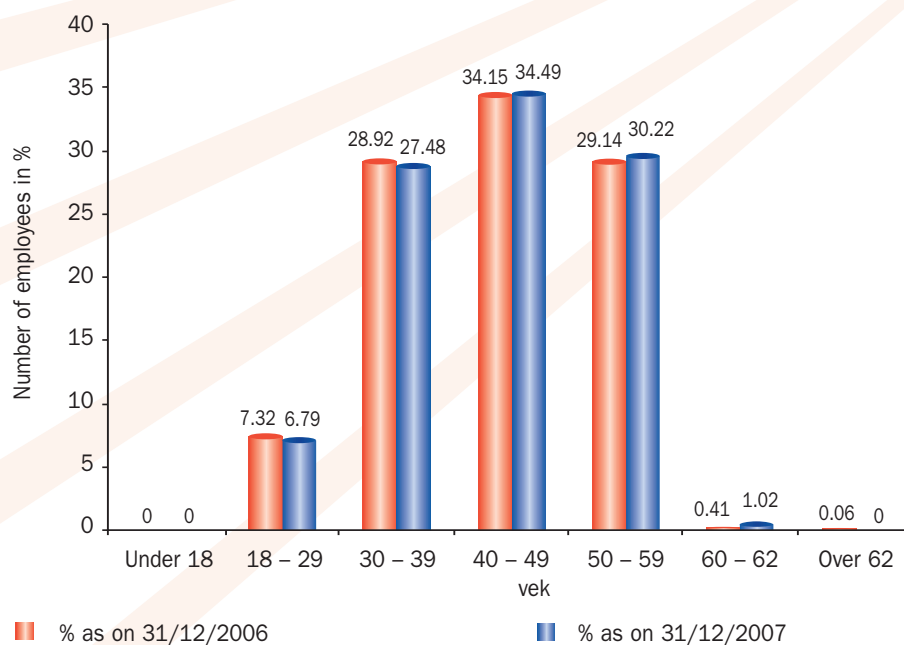
The facts above show a negative trend in the age structure with a growing number of employees in the higher age categories above 40 and on the contrary, decreasing number of employees younger than 40 years of age. The future aim is to gradually increase the number of employees in the younger age categories. In accordance with this objective, ZSSK decided to start at least one professional course for locomotive drivers in 2007, in order to ensure a gradual replacement of retiring employees in this profession.

Education structure of the employees in 2007

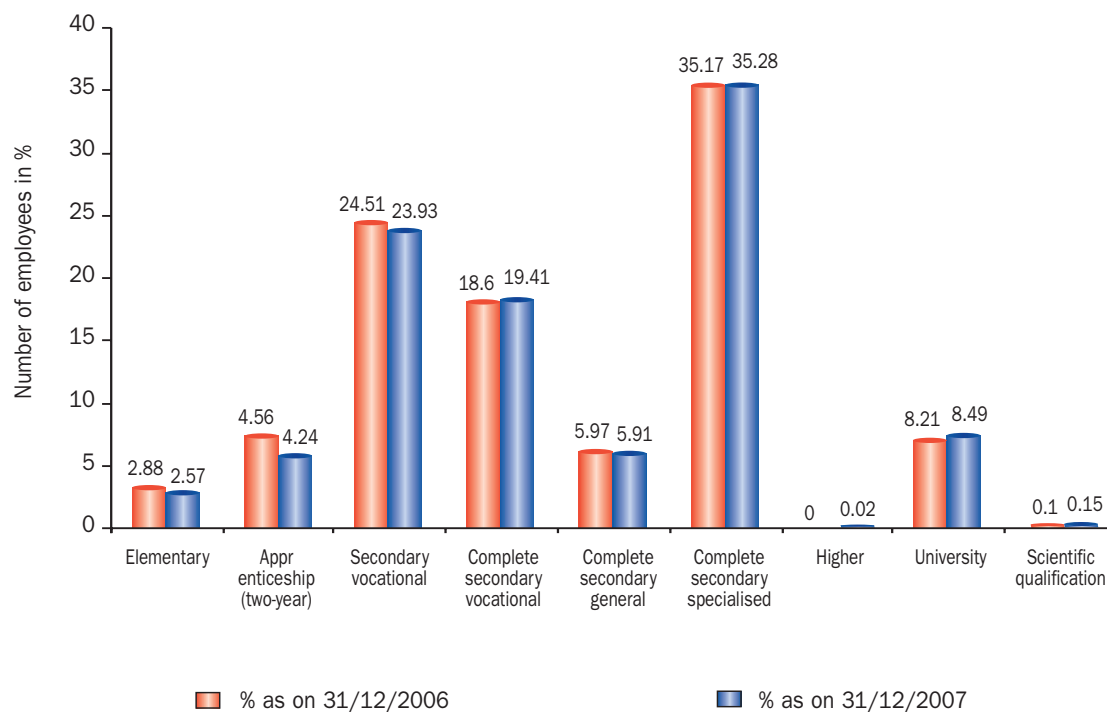
As regards qualification, as on 31 December 2007 the company employed 124 employees with elementary education (2.57 %), 204 employees with two-year apprenticeship (4.24 %), 1,153 employees with secondary education without diploma (23.93 %), 935 employees with full upper secondary education with specialisation (19.41 %), 285 employees with full upper secondary education without specialisation (5.91 %), 1,700 employees with full secondary education at vocational schools (35.28 %), 1 employee with higher education (0.02 %), 409 employees with university degree (8.49 %) and 7 employees with scientific qualification (0.15 %).

In 2007 the number of employees with university and with full upper secondary education increased. On the contrary, the number of employees with elementary education and two-year apprenticeship reduced.

Age structure of ZSSK employees in 2007 (December 2006 – December 2007)



Education structure of ZSSK employees in 2007 (December 2006 – December 2007)



Business Results

The Individual Financial Statements of ZSSK for 2007 are prepared according to the International Financial Reporting Standards (IAS/IFRS) as adopted by the EU and according to the Slovak Accounting Standards stipulated by § 17a of Act on Accounting no. 431/2002 Coll. as amended.

Business results

(in thousand SKK)

	Actual figures in 2006	Actual figures in 2007	Difference	Index 2007/2006
Costs	9,772,931	8,970,589	-802,342	0.92
Revenues	10,008,777	8,834,699	-1,174,078	0.88
Profit/Loss	235,846	-135,890	-371,736	

Expended costs were affected by:

Consumed purchases and services:

- consumption of material in the amount of SKK 439,244 thousand, i.e. decrease by SKK 76,864 thousand as compared to 2006,
- energy consumption in the amount of SKK 991,506 thousand, i.e. increase by SKK 155,853 thousand as compared to 2006,
- repairs and maintenance in the amount of SKK 1,100,685 thousand, i.e. decrease by SKK 211,612 thousand as compared to 2006,
- fare in the amount of SKK 60,826 thousand, i.e. decrease by SKK 4,910 thousand as compared to 2006,
- representation costs in the amount of SKK 1,923 thousand, i.e. decrease by SKK 545 thousand as compared to 2006,
- other services in the amount of SKK 3,093,898 thousand, i.e. increase by SKK 262,148 thousand as compared to 2006,
- the major item is represented by charge for the use of rail infrastructure, which amounted to SKK 1,767,581 thousand, i.e. increase by SKK 206,581 thousand as compared to last year.

Personnel costs:

- wages in the amount of SKK 1,304,847 thousand, i.e. increase by SKK 64,055 thousand as compared to 2006,
- social insurance costs in the amount of SKK 462,841 thousand, i.e. increase by SKK 21,720 thousand as compared to last year,
- social costs in the amount of SKK 58,689 thousand, i.e. increase by SKK 10,120 thousand as compared to last year.

Operating costs:

of which:

Taxes and charges amounting to SKK 5,009 thousand, i.e. decrease by SKK 333 thousand as compared to 2006

Other operating costs:

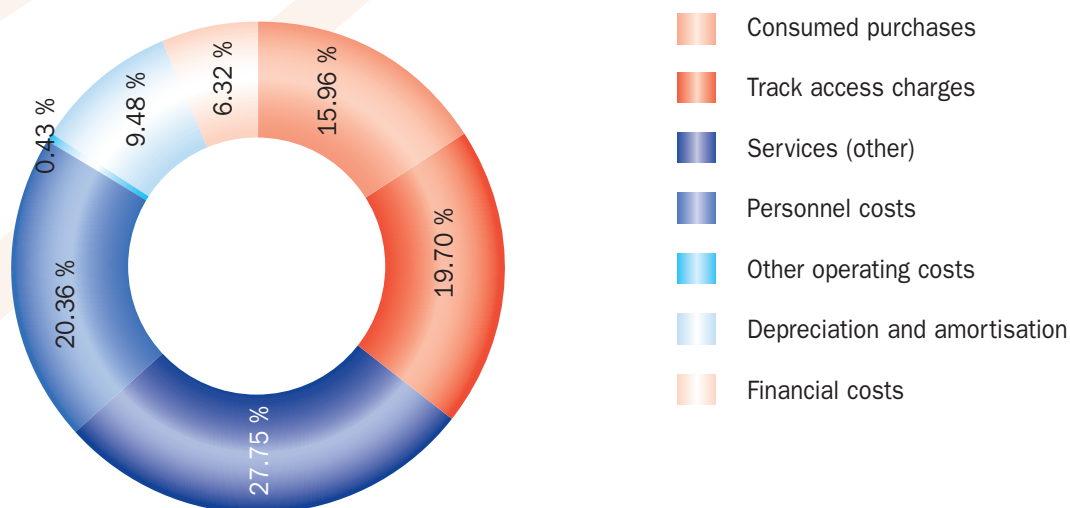
- residual price of sold long-term tangible and intangible assets in the amount of SKK 229 thousand, i.e. decrease by SKK 16,417 thousand as compared to 2006,
- sold material in the amount of SKK 25,960 thousand, i.e. increase by SKK 13,882 thousand as compared to 2006,
- other operating costs in the amount of SKK 7,362 thousand, i.e. decrease by SKK 1,241,599 thousand as compared to 2006. Other operating costs on business activity in 2006 included also costs on adjusting entries and reserves to costs on business activity amounting to SKK 1,233,182 thousand.

Depreciation and amortisation:

- depreciation of long-term tangible and intangible assets in the amount of SKK 845,369 thousand, i.e. increase by SKK 143,894 thousand as compared to 2006,
- creation of adjusting entries to assets amounting to SKK 5,010 thousand.

Financial costs:

- cost interests in the amount of SKK 200,730 thousand, i.e. increase by SKK 30,832 thousand as compared to 2006,
- exchange-rate loss in the amount of SKK 54,390 thousand, i.e. decrease by SKK 158,625 thousand as compared to 2006,
- costs on derivative operations in the amount of SKK 284,256 thousand, i.e. increase by SKK 205,673 thousand as compared to 2006,
- other financial costs in the amount of SKK 26,705 thousand, i.e. increase by SKK 4,842 thousand as compared to 2006.

Structure of costs**Revenues were affected by:****Revenues from own performance and goods:**

- revenues from transport reported in the amount of SKK 2,519,830 thousand, i.e. decrease by SKK 52,073 thousand as compared to 2006,
- revenues from sale of services in the amount of SKK 372,839 thousand, i.e. decrease by SKK 39,455 thousand as compared to 2006,
- revenues from goods in the amount of SKK 1,499 thousand, i.e. increase by SKK 65 thousand as compared to 2006.

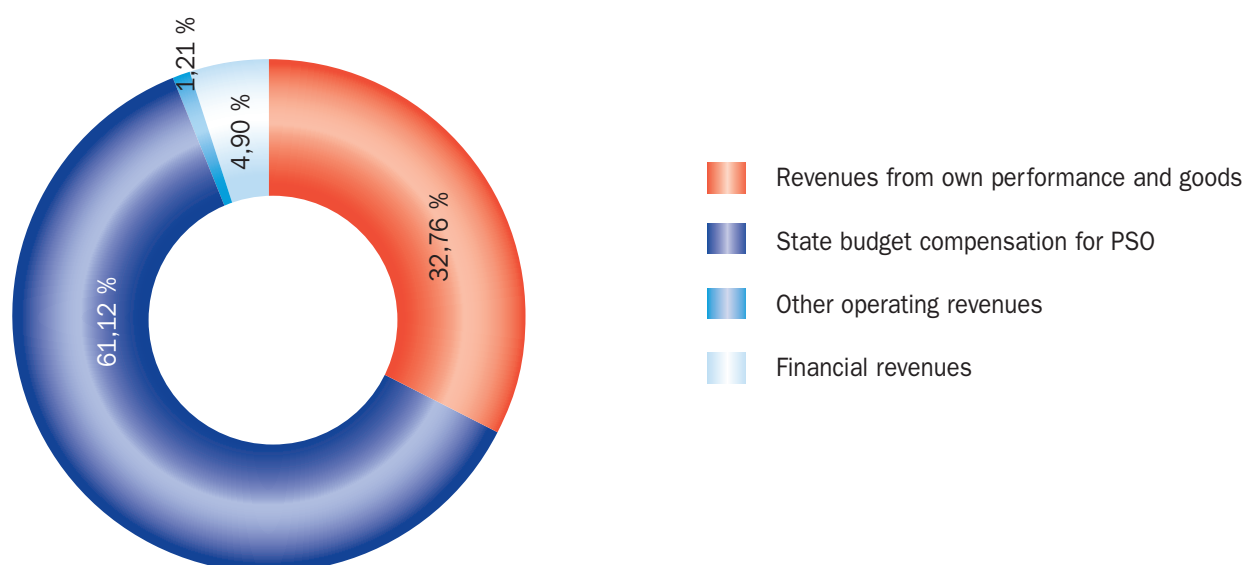
Capitalisation and other operating revenues:

- capitalisation of material, goods and services and capitalisation of long-term tangible and intangible assets in the amount of SKK 1,881 thousand, i.e. decrease by SKK 1,920 thousand as compared to 2006,
- revenues from sale of long-term tangible and intangible assets in the amount of SKK 545 thousand, i.e. decrease by SKK 16,858 thousand as compared to 2006,
- revenues from sale of material in the amount of SKK 36,771 thousand, i.e. increase by SKK 21,952 thousand as compared to 2006,
- compensation for PSO in the amount of SKK 5,400,000 thousand, i.e. increase by SKK 194,000 thousand as compared to 2006,
- other operating revenues in the amount of SKK 60,852 thousand, i.e. increase by SKK 23,255 thousand as compared to 2006,
- contractual and other charges and penalties in the amount of SKK 6,993 thousand, i.e. increase by SKK 412 thousand as compared to 2006,

Financial revenues:

- interests credited in the amount of SKK 6,692 thousand, i.e. increase by SKK 3,746 thousand as compared to 2006,
- exchange-rate profit in the amount of SKK 222,495 thousand, i.e. decrease by SKK 416,840 thousand as compared to 2006,
- revenues from long-term financial assets in the amount of SKK 2,133 thousand, i.e. decrease by SKK 339 thousand as compared to 2006,
- revenues from derivative operations in the amount of SKK 200,603 thousand, i.e. increase by SKK 176,028 thousand as compared to 2006,
- other financial revenues in the amount of SKK 1,289 thousand, i.e. increase by SKK 170 thousand as compared to 2006.

Structure of revenues



Use of Contractual Compensation of the Loss for PSO in 2007

	2007 (in thousand SKK)
ŽSR – track access charges	1,684,998
ŽSR – traction energy	920,098
ŽSR total	2,605,096
ZSSK CARGO – purchased services	1,328,086
Substitute bus transport	8,617
WGS Services	102,348
Slovnaft – diesel	10,951
Euroclean – cleaning of coaches	103,221
Personnel costs – wages + insurance	1,241,682
Total use	5,400,000
Compensation for PSO	5,400,000

In terms of the Budget Provision of the Ministry of Finance of the Slovak Republic in 2007 ZSSK was allocated financial means from the state budget in the amount of SKK 5,400.0 million.

Transfer of Assets

Based on a decision of the Board of Directors the following sale of movable assets was carried out in 2007:

Subject	Price in thousand SKK
Diesel coach 850.18-3 – sold to ŽSR VVUŽ	420
CMV Škoda Fabia Ba 263 IR – sold to Autobazár – Micičák T. Bratislava	125

Data on Remuneration of the Statutory and Supervisory Bodies of ZSSK

Income of the body members in thousand SKK	2007
Current body members:	1,985
of which: statutory	1,284
supervisory	701

ZSSK provides monetary remuneration to the members of the Supervisory Board and the Board of Directors. The amounts are subject to tax and other levy obligations in terms of effective legal regulations.

Acquisition of Non-current Assets

(in thousand SKK)

Assets	Acquisition as on 31 December 2007
Purchased software	22,055
Trademark, logo	15,900
Technical documentation	0
Total intangible assets	37,955
Procurement of intangible assets	0
TOTAL INTANGIBLE ASSETS	37,955
<i>Lands</i>	<i>0</i>
Buildings	4,778
Constructions	15,905
Total buildings and constructions	20,683
Spare parts IAS	105,293
Total spare parts	105,293
Power-producing machines	136
Working machines	24,140
Devices	153,611
Total machines and devices	177,887
Transport vehicles	1,070,991
of which: capitalisation	160,752
Inventory	779
Total non-current assets	1,413,588
TOTAL NON-CURRENT ASSETS	1,413,588

Research and Development

Indictor (in thousand SKK)	As on 31 December 2006	As on 31 December 2007
Research costs	3,919	6,667
Development costs, capitalised	222	
Total	4,141	6,667

Research and development activities in the conditions of ZSSK focus on preparation of studies, outlook technical documentation and tasks related to development of science and technologies in a contracting way. They should serve mainly to support strategic planning and decision-making, as well as to support technical and investment development of the company (introduction of new technologies and innovative methods).

This documentation serves as the first information for strategic and investment decision making, as it includes analyses and assessment of actual conditions and proposes possible solutions. Work on technical tasks results in comprehensive project documentation, if necessary also in a prototype.

In 2007 the studies and tasks concentrated on:

- Reconnaissance of tariff points on ŽSR network, 2nd phase
- Assessment and proposal of a technical solution for a one-way platform on the two-track line between Martin and Vrútky
- Tests on braking bench pursuant to UCI Leaflet 541-4: non-metallic brake blocks BECORIT 929-1 SG, JURID 816 M, COSID 810 and ABEX 333 It.
- Verification of a testing programme for rail brake blocks of P10 FERODO and ICER types
- Tests of the friction coefficient on braking bench, BECORID V30 relining
- Tests of brake blocks COSID 840 2x Bg and COSID C 952-1 2xBg
- Preparation of technical documentation and technical support for HyRAIL project
- Development of silent blocks for primary suspension and construction modifications on a coach of Bgee series with bogies of Görlitz Va type
- Modification of one-system power motive units of 162 series to two-system units of 36X series.

Ownership Interests of ZSSK (as on 31 December 2007)

Entity	Number of shares against equities as on 31 December 2007 (pieces)	Share against equities in %	Acquisition price of the ownership interest in thousand SKK	As on 31 December 2007
EUROFIMA	1,300	0.5 %	174,883	123,306
Bureau Central de Clearing, s.c.r.l. Brussels (BCC)**	1	0.685 %	32	25

Organisational Units

Železničná spoločnosť Slovensko, a.s. has no organisational units.

Important Events

After termination of the accounting period of 2007 and by the date of the Annual Report, no important events occurred that could affect existence of the accounting entity.

Settlement of Accounting Loss from 2007

In 2007 ZSSK reached accounting loss of SKK 135,889,706.

The method of reported loss settlement: the loss is reported as unpaid loss of past periods.

Balance Sheet (in thousand SKK)

Individual Financial Statements pursuant to IAS/IFRS as on 31 December 2007			
Text	Note	as on 31 December 2007	as on 31 December 2006
Total assets		14,860,514	14,499,932
Non-current assets		13,374,169	12,655,869
Intangible assets – IAS 38	5	236,267	236,352
Tangible assets – IAS 16	5	12,862,074	12,153,760
of which: Real estate	5	65,661	76,255
Buildings and constructions	5	125,042	107,902
Machinery and equipment	5	12,240,359	11,704,425
of which: transport vehicles		11,982,078	11,655,068
Assets held for sale – IFRS 5	5.3	151,648	123,485
Investment property – IAS 40	5.4	849	10,980
Long-term financial assets	6.2	123,331	131,292
Current assets		1,486,345	1,844,063
Long-term receivables	7	167,380	329,617
of which: Deferred tax receivable		0	0
Financial derivatives	7	167,380	329,584
Inventories	8	58,792	176,596
Trade receivables and other assets	7	510,825	728,857
of which: Trade receivables		486,840	720,385
Tax receivables	7	297,313	236,843
Asset money and financial equivalents	9	452,035	372,150
Equity and liabilities		14,860,514	14,499,932
Equity and funds		7,370,747	7,495,975
Shareholders' equity	10	6,400,000	6,400,000
Capital funds	10	2,051,358	2,126,121
of which: Differences in assets revaluation	10	628,234	713,729
Business results of previous years	11	-944,721	-1,265,992
Business result of the current accounting period	23	-135,890	235,846
Long-term liabilities		4,349,983	4,554,211
Credits	6.1	879,256	1,667,225
Financial lease liabilities	12a	49,035	522
Long-term financial assistance	6.1	3,178,844	2,696,694
Long-term reserves	16.	189,218	189,658
of which: Reserves for fringe benefits	12b,2,14	189,218	189,658
Other long-term liabilities	12a	53,630	182
of which: Deferred tax liability			
Financial derivatives	12a	34,804	0
Short-term liabilities		3,139,784	2,449,746
Credits	6.1	1,253,806	698,886
Financial lease liabilities	12a	26,568	364
Trade liabilities	12a	1,011,315	843,092
Liabilities towards employees	12b.1	95,257	87,768
Tax liabilities	12a	11,030	9,369
Short-term reserves	14	0	23,342
Other state liabilities and other liabilities	12a	741,808	786,855

Profit and Loss Statement (in thousand SKK)

Classification by type

Individual Financial Statements pursuant to IAS/IFRS as on 31 December 2007			
Text	Note	as on 31 December 2007	as on 31 December 2006
Income from transport	17.1	2,519,830	2,571,903
State compensation to cover costs on services in public interest	17.3	5,400,000	5,206,000
Other income	17.1-17.5	914,869	2,230,874
Total income:		8,834,699	10,008,777
Costs on sold goods	18.1	1,110	917
Consumed purchases and services	18.1	5,688,082	5,563,987
Costs of fringe benefits	18.2	1,826,377	1,730,482
Depreciation and amortisation	18.3	850,379	701,475
Financial costs	18.4	566,081	493,043
Other costs	18.3	33,551	1,277,685
Charges and taxes	18.3	5,009	5,342
Total costs		8,970,589	9,772,931
Business results in the current accounting period		-135,890	235,846

Statement of Changes in the Equity (in thousand SKK)

Individual Financial Statements pursuant to IAS/IFRS as on 31 December 2007						
Text	Equities	Capital funds	Statutory reserve fund	Evaluation differences from re-valuation of assets and liabilities	Business result of previous years	Total
Opening balance as on 31 December 2006	6,400,000	782,392	630,000	713,729	-1,265,992	7,260,129
Change in business results of previous periods	0	0	0	0	0	0
Change in accounting rules	0	0	0	0	0	0
Opening balance as on 1 January 2007	6,400,000	782,392	630,000	713,729	-1,265,992	7,260,129
Surplus after re-valuation of assets	0	0	0	-85,495	85,425	-70
Surplus after re-valuation of financial investments	0	0	0	0	0	0
Settlement of business results of previous years	0	0	0	0	235,846	235,846
Business result – not stated in the profit and loss statement	x	x	x	x	x	x
Business result of the current accounting period – stated in the profit and loss statement	0	0	0	0	-135,890	-135,890
Other allocation/distribution of the equity	0	10,732	0	0	0	10,732
Final balance as on 31 December 2007	6,400,000	793,124	630,000	628,234	-1,080,611	7,370,747

Cash Flow Statement (in thousand SKK)

Individual Financial Statements pursuant to IAS/IFRS as on 31 December 2007			
Text	Note	As on 31 December 2007	As on 31 December 2006
Business result of the current accounting period	11,23	-135,890	235,846
Cash flows from operating activity. Net:		1,400,847	1,563,056
of which – impact of write-offs	5	830,720	685,141
– impact of non-monetary transactions	7	341,672	555,835
– other impacts	12	228,455	322,080
Cash flows received / (used) out of investment activity		-1,568,363	-1,406,730
of which – income from investment assets sale	5	545	17,403
– other income from investment activity	5	7,961	16,804
– expenses on procurement of investment assets	5	-1,576,869	-1,440,937
Cash flows from financial activities		115,817	770,763
of which – credits	6	-261,271	194,214
– financial assistance	6	482,150	879,990
– other	6,17	-105,062	-303,441
Net increase/decrease of financial means		51,700	927,089
Financial means at the beginning of the period	9	-146,159	-1,072,486
Impact of exchange rate changes	17	-37	-763
Financial means at the end of the period	9	-94,496	-146,159

Annex – Individual Financial Statements of ZSSK for 2007

The Annual Report is annexed with the Individual Financial Statements of ZSSK reported pursuant to the International Financial Reporting Standards (IAS/IFRS) as on 31 December 2007.

Addresses of Železničná spoločnosť Slovensko, a.s.

Address:

Železničná spoločnosť Slovensko, a. s.

Rožňavská 1

872 32 Bratislava

Slovak Republic

☎: 00421/2/20 29 78 79

fax: 00421/2/44 46 14 98

e-mail: zsskgr@slovakrail.sk

General Representation of ZSSK at UIC:

PARIS

UIC Union Internationale des Chemins de fer

Internationaler Eisenbahnverband

International Union of Railways

16, rue Jean-Rey-F

75015 Paris

☎: +33(0) 1 44 49 21 14

Fax: +33(0) 1 44 49 21 19

e-mail: fazik@uic.asso.fr

INDEPENDENT AUDITOR'S REPORT

for the shareholders of: Železničná spoločnosť Slovensko, a.s.

We have audited the accompanying financial statements of the joint-stock company Železničná spoločnosť Slovensko, a.s., Rožňavská 1, 813 13 Bratislava, Company ID No.: 35 914 939 for the year ended on 31 December 2007, including the balance sheet reported as on 31 December 2007, profit and loss statement for the year then ended, as well as equity and cash flow statements as on the given date and explanatory notes.

These are the financial statements reported for the first time in accordance with IFRS for the year ended on 31 December 2007.

The enclosed financial statements of Železničná spoločnosť Slovensko, a.s., Bratislava are reported in accordance with the standards adopted by the International Accounting Standards Board. These principles include International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), as well as Interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC).

The management of the company is responsible for elaboration and objective presentation of these financial statements in compliance with the International Financial Reporting Standards as adopted by the EU and with Slovak Accounting Rules – § 17a of Act no. 431/2002 Coll. on Accounting as amended. This responsibility includes: drafting, implementation and maintenance of internal control relevant for preparation and objective presentation of the financial statements, which shall not contain material inconsistencies, whether due to fraud or mistake, choice and application of suitable accounting rules and principles, and preparation of accounting estimates adequate for the given situation.

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 maintain ethical requirements, to 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 methods chosen depend on the decision of the auditor, as well as the risk assessment as regards serious inconsistencies in the financial statements, either due to fraud or mistake. When assessing this risk the auditor considers the internal control relevant for preparation and objective presentation of the financial statements, in order to be able to propose auditing methods suitable for the given situation, however, not

with the aim to express opinion on the effectiveness of the internal control of the accounting unit. Furthermore, the audit consists of evaluation of suitability of the applied accounting principles and adequateness of significant accounting estimates stated 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.

In our opinion, the financial statements reported in compliance with the International Financial Reporting Framework present an objective overview of the financial situation in all substantial matters as regards Železničná spoločnosť Slovensko, a.s. as on 31 December 2007, as well as the economic results and financial flows for the year then ended, in accordance with the International Financial Reporting Standards and their interpretations as adopted by the EU.

In Žilina, on 24 April 2008

Data Eko Audit Consult Žilina, spol. s r.o.
Háľkova 3, 010 01 Žilina
Licence SKAU no. 39

Companies' Register of the District Court of Žilina
Section: Sro, Entry no. 1288/L

Responsible auditor:
Ing. Viera Jancová
Licence SKAU no. 189



