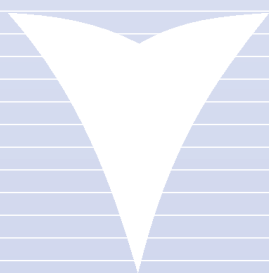




ORGANIZATIONAL CHART OF LPS SR, Š. P.







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Ladies and gentlemen,

the Year 2003 was significant time period for our company LPS SR and for air transportation as well. The most important economic issue was the recovery of the whole industry. The number of flights in Europe's air space has a rising trend. To cope with the growth in the air traffic demand, the company has adopted a strategy programme to increase its capacities, efficiency and performance. The result is, that LPS SR deliver to the airspace users required level of capacity with almost no delays over the territory of Slovakia. In the past Year we faced significant increase of the traffic, where the number of movements increased by 11,1% and number of service units by 11,3% in average in FIR Bratislava. Hand in hand with these challenges the improvement in cost effectiveness has been measured as well. As the company has adopted cost containment measures, we were able to achieve significant savings, where the Unit costs in national currency were reduced by 11%.The situation is promising and for the next year we do expect even higher reduction in Unit rate. Only careful set up of priorities covering the operational, financial, investment and human resources areas in the company resulted in to better performance of the whole system.

Our strategy has been confirmed by the operational and financial figures from 2003 and shows, that the company should maximise the capacity of the Slovak Republic's airspace and should carefully concentrate on achieving minimum delays. This is the only right approach towards our customers.

The Safety seen also through the Safety management, supported by the Quality management, are together seen by the LPS SR as the key cornerstones for the provision of Air Traffic Management services. This is why the Safety and Quality tasks defined in the European Air Traffic Management Programme, EATMP, as well as in the ICAO documentation, have been entered as binding elements in the company's Strategy and its Business Plan - the strategy which also attaches considerable importance to delay and effectiveness criteria.

The essence of the Safety Management System employed by the LPS SR is the continuous assessment of the impact of actions on the level of safety. The system constitutes a new quality element in the provision of air traffic services and led, in the year 2003, to the implementation of the actual regulatory requirements based on ESARRs (Eurocontrol Safety Regulatory Requirements).The safety and quality of the company services are understood as the result of careful set up of priorities, targeted efforts and hard work on a daily basis.

More recently, the civil/military operations have been integrated to accommodate the new civil/military functions at ACC level. Furthermore, military ATC staff have been collocated in this new environment in order to optimise civil-military co-operation and co-ordination in airspace utilisation.

In this context, the rules of the EUROCONTROL Concept of the Flexible use of Airspace are being fully implemented. In relation to the specific activities of military aircraft, it will still be necessary to assign air space to the Air Force of Slovakia (TSA and R). Therefore, it is still necessary to consider the division of a special part of military operations from civil, and for this reason responsibility for the provision of services must be divided between the civil and the military service, but it is provided from one operation centre.

The operational ATC system used by ATCC Bratislava is a modern system with a fully electronic Human/Machine Interface environment where. The level of civil/military cooperation has been dramatically improved, as the civil and military staff is operating the same system, same procedures and same data. The electronic environment put new quality in to the co-ordination and data exchange, as the changed data are immediately available for all interested parties in the ATM chain.

These facts are the result of the implementation of new technology and new ATC procedures based on latest developments in the ATM industry.

The positive evolution of air traffic and adherence to the budget in 2003 has resulted in the good financial situation the company now enjoys. I can happily say that we have been able to fulfil all our commitments towards the state, our suppliers and our employees. The future of increasing the permeability of air space lies in integration and establishment of international centres for air traffic control. The LPS SR is ready and willing to engage itself deeply in all phases of the CEATS Project and supports the objective of one airspace continuum. We continue to work in the CEATS project, the development of which unfortunately does not correspond to the effort and funds invested in. ANS providers involved are therefore also working together on a multilateral and bilateral basis in order to contribute to the achievement of a Single European Sky while maintaining maximum efficiency and reasonable transit costs. The Single European Sky Program with subsidy of the CEATS Agreement is accepted as a tool for the wide application of effective airspace use on the condition of its flexibility in reflecting the changes of ATM environment where the ANSPs play crucial role.




Roman Bíro
Director General

At the meeting in April 22-23, 2004 the Supervisory Board of LPS SR, State owned enterprise on the basis of verification of the annual financial statements by the auditor Jana Tomšíková, evaluated the economic results of the company for the year 2003, concluded the performance of the company as/is in the line with valid legal standards and accounting regulations, and that planned indicators have been achieved.

The Supervisory Board discussed a proposal for the distribution of after-tax profits, and approved the proposed distribution scheme at the meeting.

The Supervisory Board also discussed a report to the founder on the company's financial performance in 2003.



Martina Pastýřiková
Chairperson of the Supervisory Board
LPS SR, š. p.

The Minister of Transport, Posts, and Telecommunications, by his decision No 144/99 of November 17, 1999 established as of January 1, 2000 the company LPS SR based at M. R. Štefánik Airport in Bratislava.

The basic subject of activity of the company is the provision of Air Traffic Services, Aeronautical Information Services, Aeronautical Telecommunications Services, and co-ordination of Search and Rescue Service. The main objective in performing of these activities is to ensure safe, effective, and orderly flow of air traffic within given airspace and at designated aerodromes.

With the establishment of the state owned enterprise, pursuant to Article 20 of Act 111/1990 Zb. on state owned companies, a Supervisory Board was established as a decision-making and supervisory body of the state owned enterprise. Activities of the Supervisory Board were guided by its Statutes and Procedural Order approved by the founder.

The Supervisory Board was composed of nine members. The founder (Ministry of Transport, Posts, and Telecommunications) appointed four members of the board and its chairman, whereby one member represented the Ministry of Finance of the Slovak Republic.

Three members of the Supervisory Board were elected by the company employees in a secret ballot and one member was delegated by trade union associations.

Activity of the Supervisory Board was focused above all on reviewing the annual and special financial statements, decision-making about distribution of profit, approval of proposals to procure and finance tangible fixed assets and intangible fixed assets in line with the Statutes, it discussed the basic development concepts of the company and its business activities, supervised over management and economic performance of the company, control of data in accounting ledgers, and it submitted to the founder the half-year and annual report about the company's economic performance.

The company's organisation structure is defined as follows: the company is led by a director general appointed by the founder. The main organisation units at the second management level ensuring the performance of the company's tasks are:

- Air Traffic Services Operations Division,
- Rescue Co-ordination Centre,
- Engineering and Infrastructure Division,
- Finance Management Division,
- Administrative Management Department,
- Aeronautical Information Services Department,
- Management Information Systems Department,
- ATS Safety Department,
- Defence and Protection.

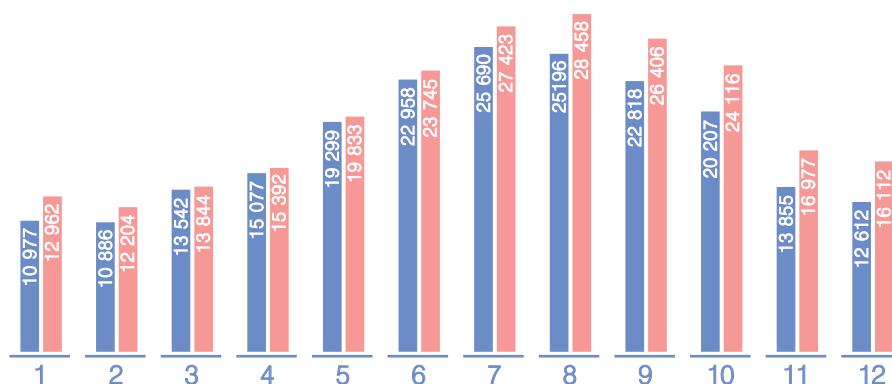
Air Trafatic Services

ACC Bratislava

Within the monitored period from January to December 2003, an increase in the number of movements in the controlled air space of Bratislava FIR by 11,42 % was recorded. It means the number of movements increased by 24,355 within that period of the time monitored.

Air Traffic Activity for the years 2002 to 2003

2002 2003



In general, the ATS system proved to be efficient. ATC capacity in the summer season didn't meet the traffic demand. By the end of the year 2003 the number of ACC controllers was sixty. There were no new controllers recruited.

Aerodrome ATS Units (APP/TWR)

Bratislava

The main activities of the ATS Bratislava Unit's personnel in 2003 led to spreading and delivery of air traffic services.

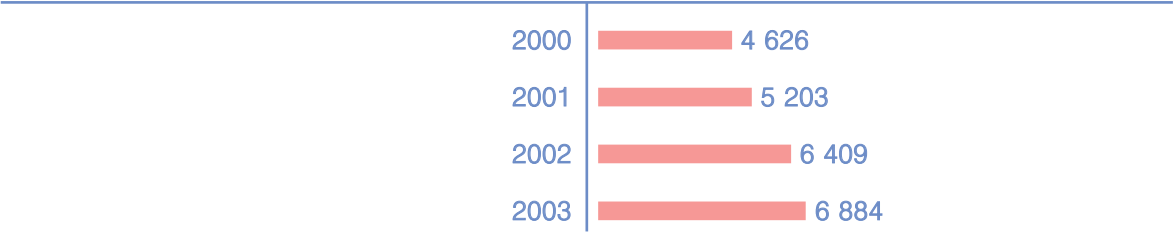
After several years of crisis with a very fast traffic downturn the year 2003 could be designated as second consecutive one bringing an expansion of air traffic at the M. R. Štefánik Airport. Following an expansive evolution of a low-cost carrier Sky Europe Airlines and higher demand of further foreign airlines there is a significant revival of air transport at M. R. Štefánik Airport. This is confirmed by a yearly growing number of scheduled airlines. In 2003 the M. R. Štefánik Airport provided with a direct connection to 16 European and Near Eastern destinations.

The comparison of number of movements at M. R. Štefánik Airport in 2003 with that of previous year shows an increase of 17 %. Within TMA Bratislava a total number of movements has still a growing trend.

Košice

International airport Košice is dynamically developing airport with an air traffic growth yearly. Statistically it is possible to declare annual growth in number of movements about 14%. There was no air traffic incident or accident from ATC point of view in the previous year as well as in the years before.

Evolution of IFR units for the years 2000 to 2003



Poprad

In 2003 the ATS Poprad Unit provided with air traffic services without any significant inadequacies or objections. From 1st of July 2003 provision with approach control by radar facility has been restricted by night.

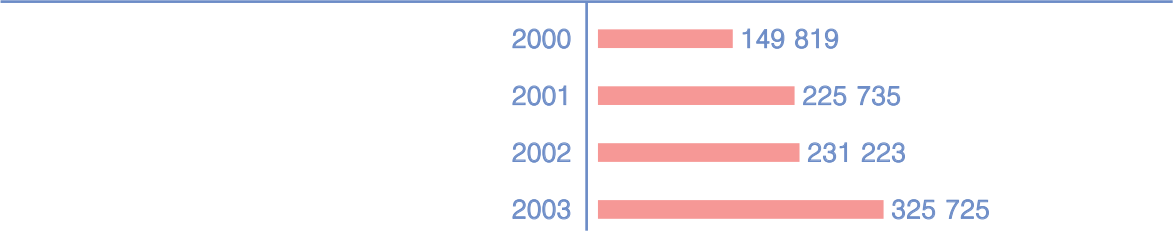
Sliac a Žilina

During 2003 flight operation services at the control units ATS SLIAČ/ŽILINA were provided in reasonable quality with regard to staffing and technical equipment. From the perspective of safety of air-traffic operations, there have not been any caused the LPS recorded.

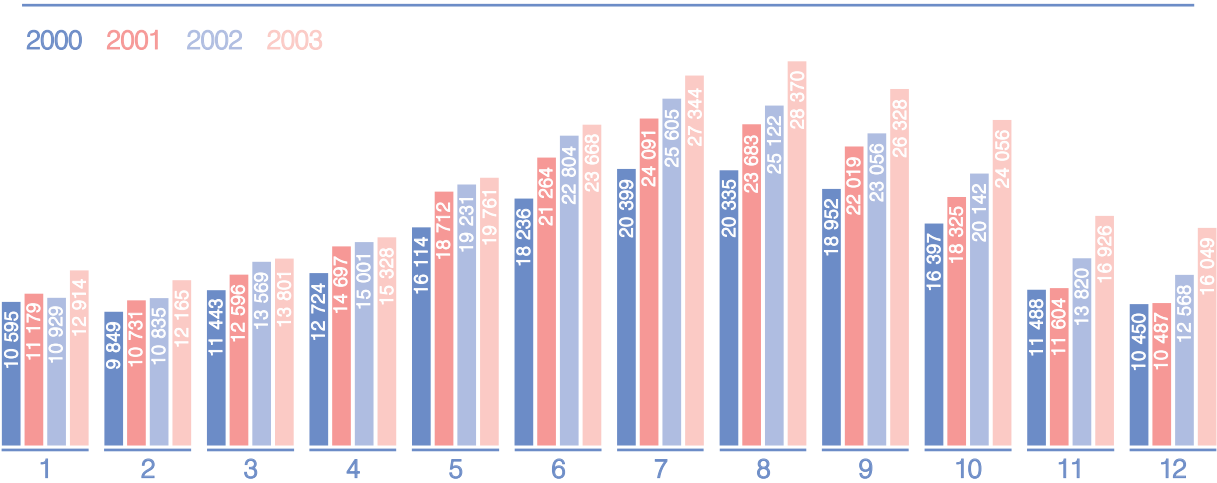
Piešťany

The control unit providing airport control services, in Piešťany, was providinga these services without any restrictions.

Evolution of Terminal Performance for the years 2000 to 2003



Evolution of the services units for the years 2000 to 2003



Search and Rescue

During a period under review activities of the Rescue Co-ordination Centre (RCC) were utilized in 98 cases. In 74 cases it was an interception of the transmission on frequencies dedicated to emergency position transmitters, of which in 23 cases it was interpreted to be false on the ground of incorrect avionics operation, unprompted activation of the facility in turbulence (2x), eventually it was a transmission from the outside of the Slovak territory (11 cases). In 6 cases we were asked for a help to localize a transmission of the emergency signals directly by Cospas/Sarsat Centres. In 2 cases the system was activated at aeronautical accident. We closely cooperated with appropriate units of the Ministry of Defence, Ministry of Interior and neighbouring SAR Centres (Czech Republic, Austria, Hungary) during these.

RCC activities were aimed at special preparation, training and other education of Centre's personnel. Beside that the staff was regularly notified of changes in public and in-house regulations and managing instructions relating to SAR service.

In March the RCC Manager attended the international conference and exposition Search and Rescue 2003 where he presented our system of the provision of search and rescue service. According to Organizers it was one of the most valued presentations and it has confirmed that thanks to a newly completed modernization as well as employed technologies our Centre is one of the best equipped in the world.

The joint instructional-methodical exercise including a check-up of the ground search and rescue unit was performed at Malacky Airbase with our attendance. Similar exercises were performed also at Sliač and Prešov Airbases.

The joint session of RCC Managers from Czech Republic, Austria and Slovakia passed in May dedicated to a development of coordination practices and common exercises.

According to decision of the Ministry of Defence, to provide military aircraft in straits with a search and rescue service directly by its own competent units, discussions took place at the end of the year with defence department representatives regarding the future co-operation in search and rescue

service provision within the airspace and territory of the Slovak Republic. By this reason, the Ministry of Defence withdrawn from Agreement on Establishment of the Bratislava Integrated Rescue Co-ordination Centre in December 2003. After follow-up reorganization and withdrawal of regular soldiers from that position, the RCC Bratislava has been established from 1 January 2004 , which copes with its tasks according to Aviation Law and Provision L12 Search and Rescue.

Technical Support

The technical support division is an administrative unit providing ANS with aeronautical telecommunication services according to LPS SR's foundation deed.

Up-to-date avionics equipments are to be supported by proper ground-based technical facilities. High precision, promptness, availability in practice 24 hours daily all the year round and reliability of this technology follow the requirements imposed on stated subjects of activities.

Considering its wide range, specialization, high seriousness and specific conditions the facilities are usually structured to several basic groups:

Communication facilities

Provide for voice connection with crews of craft and with separate control units of air-traffic operation services, particularly in Slovakia as well as in the neighbouring countries. In present times, there is also an ever stronger and perspective range of devices and systems assuring appropriate data transmissions.

Navigation facilities

Allow the crews of craft to determine their position and direction. Significance of this group is not diminished by the fact satellite navigation is gradually pushing itself forward ever more and more. The Precision Instrument Landing System (ILS) that is not missing at any significant airport in the world has been an irreplaceable representative of this group so far.

Radar facilities

Provide air-traffic controllers with primary information on air targets, their position and altitude, identity and vector speed in case the radar output is of secondary processing level. Based on its purpose the radar is designed to be a primary or secondary. To cover all the area of interest by a radar signal LPS SR operates several radars, which are situated on Slovak Airports as well as on radar stations (Veľký Javorník and Veľký Bučėň). Furthermore, to achieve higher safety and quality of information, LPS SR make use of radar signals abroad (Austria, Hungary, Czech Republic). This information forms an input signal to radar and flight data processing systems.

Radar and flight data processing systems

Provide air-traffic controllers with visual information on the air situation with all relevant information on flights as e.g. position, altitude and speed of separate targets, their flight plans with trajectories and a schedule as well as various subsidiary functionalities allowing to more precisely address specific operational situations. Warning provided by these systems ahead of time reduce probability to oversee potential dangerous conditions, contributing to attainment of a higher rate of safety which is the highest criterion of services provided.

Electric power distribution insures power supply as a necessary condition for operation of all electric devices. To assure an uninterrupted supply of electric power, connections to never-failing power

generators are secured for particularly important and demanding devices, with possible duplication and automatic switching.

In the same way as our life is inconceivable without the air, operation of these facilities is inseparably linked to and conditioned by.

Air-conditioning devices insure accurate functioning of various facilities and feasible working conditions for workplaces all the year round in a wide range of exterior temperatures.

With regard to serious consequences of contingencies within air traffic as well as due to the safety and prophylactic reasons, all important communication channels and data are recorded on media by recording devices constituting also a significant group without which up-to-date operation would not be possible.

Overall integration of all groups of devices into systems of remote control and supervision is continually growing.

It follows from the shown brief survey that to keep all system in operable condition is a demanding task in technical, financial and organisational terms, putting the high requirements upon the relevant staff. There is also an added necessity for innovations given by continual technical progress and increasing requirements of airlines and other services users. Behind innovations, there is a huge amount of work of actually all units of LPS SR as, for example, are:

- air-traffic controllers who are the most frequent immediate users wording operation requirements upon many devices;
- technical specialists who make sure for specification of technical requirements upon devices for suppliers, taking part in the process of checking the devices before putting them into operation;
- operation workers who take a distinct part in installation, mostly under very aggravated conditions, where the initial device is required to be kept going on simultaneously implementing the phases of preparing the newly installed devices and managing retraining for new technology ;
- specialists working in the investment area providing for a challenging side of projects, mostly with a foreign supplier.

Aeronautical Information Service

The main goal of the AIS is to provide air information necessary for safety, regularity and efficiency of air traffic. AIS employees provided for activities directed to improvement of provided services through various automated systems. According to requirements of users an amendment service for the AIP SR was performed and parts of integrated aeronautical information database were published. No failings with regard to provision of aeronautical information were noticed during this period. Also performed was a publication of Provisions series L, JAR and of other publications. ICAO Documents were put for sale through sales department. Moreover, advisory and consultation services were provided during a monitored period.

In scope of automation activities were focused mainly on the system for creation of the AIP SR, including the aeronautical charts processing module. Integration of the AIS systems at working process level in compliance with EUROCONTROL rules (AIS Data Process) was in progress. The system was further tested and arrangements have been taken to achieve an operating certificate. The system was activated on 1 September 2003. Testing and necessary arrangements of the BRAVO module were continued as well.

Within preparatory works to connect the national AIS system to EAD (European AIS Database), preparation of a plan of transition as well as other related activities were continued. In this connection all necessary details were completed allowing us to sign contracts for adjustment of present systems to be compatible with EAD. We started a process of public procurement to find an EAD Network Adapter, which will be an AIS/EAD system interface, and we also launched modules for communication with EAD.

AIS participated in the electronic AIP project (eAIP) coordinated by EUROCONTROL. The aim of this project is to provide users with aeronautical information contained in AIP in digital format and unified structure. We managed to organize a regional seminary in Bratislava on this topic in October attended by dedicated specialists from East and Central European countries and also from EUROCONTROL.

In May there was a meeting with AIS users focused at presentation of actual status in provision of aeronautical information services and results achieved in the field of automation. The main topic was changeover of paper publications to electronic presentation of aeronautical information. Substantial was a discussion with users the objective of which was to define future requirements on AIS service. The knowledge will be used to manage a further development in this area.

In close co-operation with EUROCONTROL a strategic business plan for next ten years was prepared and consequently approved on 22. December 2003.

In co-operation with STASYS Company of Great Britain bases for a tender proclaimed by European Commission to perform a study on "Providing the European Upper Airspace with Aeronautical Information" were prepared. The offer was, in fair competition, recognized to be the best one and in December 2003 the contract was signed for this Study between European Commission and STASYS, where LPS SR will be a subcontractor.

AIS employees took an active part in:

- activities towards the EATMP objectives - AIS AHEAD and EAD in particular;
- activities towards maintaining of the company's quality management system ISO 9001:2000;
- various staff trainings relating mainly to increase its skills in English;
- ICAO AIS/MAP Seminary in Kiev, where they presented our AIS system as well as the QMS.

Furthermore, training was organized for AIS employees aiming to increase their special knowledge, followed by regular annual examination. All employees passed this exam well and updated their obligatory qualification.

In the area of integration of civil and military LIS, the planned condition in issuing air information on military aviation has not been achieved. Efforts in this field were focused on preparing a proposal of the manner to publish military information in the AIP of the Slovak Republic.

Employees of LIS were taking active part in activities related to fulfilment of the tasks of the programme EATMP in the field of AIS.

Safety in ATM

The LPS SR, provides services in compliance with the Act No. 143/1998 on Civil Aviation (Aviation Act) as amended latter, focusing especially on safety, efficiency and orderly flow of air traffic. In an effort to reach and maintain a high standard of safety, the company has defined its aim in this area in its Safety Policy, which binding it to establish a safety management system and assign the highest priority to safety, preferring it to commercial, environmental and social effects.

Safety management represents a set of expert activities by employees of the ATS Operations Division, the Engineering and Infrastructure Division and the ATS Safety Department who guarantee that all the risks affecting or threatening safety are to be identified, judged from the view of their significance and influence, and reasonable measures to be taken to minimise their consequences.

A number of routine activities were performed in 2003. The matter was primarily in elaboration and modification of operational management acts and information documents, including AIP SR, in-house safety guidelines, national equivalents of documents of the international organisations ICAO, EUROCONTROL and JAA, investigation of incidents in air traffic under competence of the company, including proposals of remedial measures to be taken and co-operation in investigation with external bodies. The company representatives were participating on development of national equivalents to ESARR 5 ATM Services' Personnel and European Manual of Personnel Licensing -ATCOs.

One of the most important events in the year 2003 was approval by EUROCONTROL of the proposed measures of the working group AGAS (High Level European Action Group for ATM Safety) which was, in the light of catastrophic incident in July 2002, focused on identification of priority actions to further improve ATM safety across ECAC States. One of the main outputs of the work of AGAS was elaborating and reaching the approval of European Aviation Community of so-called Strategic Safety Action Plan (SSAP). The following areas were identified as "areas with most priority":

- Human Resources;
- Incident Reporting and Data Sharing;
- Airborne Collision Avoidance System (ACAS);
- Ground- based Safety Nets;
- Runway Safety;
- ESARRs Implementation at National Level;
- Safety Awareness;
- Safety and Human Factors, and Research and Development.

For realization of proposed measurements in these priority areas the Implementation Master Plan was introduced, the finalisation of which is planned on 31 January 2006. However, the results will be evaluated and measures updated continuously in the future. On the back of the tasks mentioned above the major task in the year 2004 will be to finalize the implementation of Safety Management System within LPS SR.

General Administration

In 2003, Department of General Administration occupied itself by principal documents of our company and by other agenda with our founder. It took part in collective bargaining and co-operated at creation of the collective agreements in term of its conformity with legal enactments. It dealt with agenda concerning the capital life insurance, concluded new insurance agreements and performed other activities connected to this agenda. The Department provided with general consulting, reviewed and elaborated attitudes to managing acts of the company and organizational units of the 2nd stage of management. In addition to common objectives the Department solved particular legal issues, provided with legal consultations including information on actual legal enactments and attitudes to legal problems. The Department participated in legislative processes within the intra-department and initiatively also within the inter-department marking up of the draft legal provisions. Within its scope, it assisted at preparation of agreements, considered all draft agreements and annotated them, performed its revision in legal and formal terms. In 2003, it dealt with 215 draft agreements and its amendments. It administered an agenda of judicial cases and acted for company at legal

proceedings. It also considered claims in term of its recovery and provide to be not out of date at competent Court. It registered claims to bankruptcy proceedings. In case of foreign debtors, having considered an issue of fact, it proposed write-offs of debts.

Human Resources Department

In addition to its usual agenda, in 2003 the Human Resources Department provided other activities aimed at human resources development:

- analysis and planning of the demand for staff (number, structure, quality) in term of company's requirements;
- competitive and selective examinations for required working positions;
- acquisition and selection of capable staff;
- management of in-house mobility;
- employment data processing;
- provision with social care, medical and catering services;
- preparation of training programs and the training itself;
- assistance to employment agencies, high schools and universities and personnel-consulting centres.

The number of employees of the LPS SR, has been stabilised. As of 31 December 2003, the company reported a registered number of employees to be 493, representing a decrease by 15 employees compared to 2002. In 2003, 11 new employees signed while 26 of them leaved.

Despite the fact the number of employees was stabilised in 2003, the Department issued from a need to fill in vacancies and to complete the plan of employees.

Inspection activities

In-house inspection activities at the company consisted of audits performed by the Unit of internal inspection at the 2nd stage of management as well as of safety audits carried out by SAF department.

The Unit of internal audit carried out 11 planned inspections in consent with the approved plan of inspection activities and one extra audit. The performed inspections were mainly focused on adherence to generally binding legal regulations, internal management acts and technical/operational documentation. Findings and recommendations by these inspections were recorded to protocols and minutes of the consultations with managers concerned. Measures were adopted, committed by three Orders by Director, with aim to remove faults and causes of their occurrence found out by inspections and to prevent it in a future. The fulfilment of these Orders was a matter of separate audit.

Audits performed at 2nd stage of management were mainly focused to special scope of the company. Extra audits were directed to observance of working rules, using of alcohol, stock holding records and the Cash Office.

No findings leading to a proof of damage or other such findings occurred within the inspection activities carried out at the company.

The bodies of external inspection during 2003 carried out four inspections. The matter was in audits performed by the Tax Office for Selected Subjects of Bratislava, by Social Institution/Trnava branch at regional airport of Piešťany, Inspectorate of Environment of Banká Bystrica at regional airport of Sliač and Joint Life Insurance Company Dôvera/Košice branch at regional airport of Košice. No discrepancy findings were put to protocols from these inspections and no corrective measures were imposed to the company.

There was recorded decrease in average registered number of employees from 508 in year 2002 to 493 in year 2003. Decrease was reached by administrative steps, as well as from reasons resulting from §§ 60, 63, 71, retirement and other reasons in Labour Code.

Increasing in labour productivity from revenues was affected by revenues increase and by decrease of number of employees. Labour productivity is expressed with an index of 1,17.

Value added indicator increased in year 2003 compared with 2002 with an index of 1,15, it was caused by growth in revenues of sale of own products and services.

Increasing in labour productivity from added value indicator in year 2003 in comparison with year 2002 was caused by growth of added value and decrease of average registered number of employees. This indicator grew in year 2003 in comparison with year 2002 with an index of 1.18, what presents more than SKK 426 thousand in average per employee.

In the period of year 2003 in comparison with year 2002 is recorded increase with an index of 1,07, in the item wages and salaries, it was caused by employees anciency, changing in employees classification and in result of tariff bargaining between director and employees

In year 2003 in comparison with year 2002 was indicated growth expressed with an index of 1,07 in ratio wages and salaries included own members of Supervisory Board, what presents changes in employees classification.

In conclusion it is possible to state, that in year 2003 in comparison with year 2002 the growth of value added with an index of 1,15, productivity from value added with an index of 1,18 was more progressive than wages growth with an index of 1,07 and average earnings per employee with an index of 1,09.

Revenues

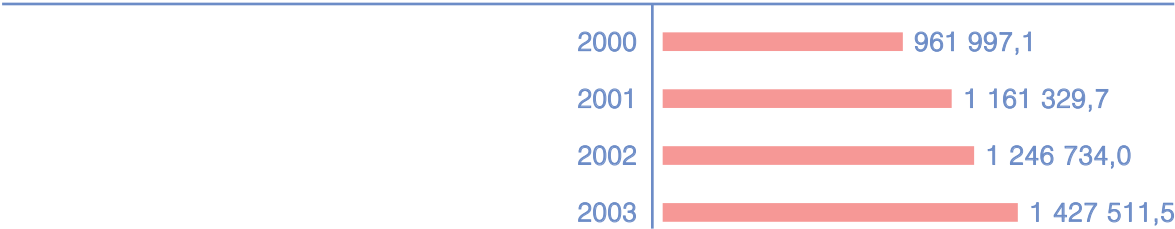
In the period of year 2003, LPS SR reported revenues in total volume SKK 1,427,511.6 thousand. In comparison with year 2002, the indicator revenues increased by SKK 180,777.5 thousand, what presents growth with an index of 1,15.

Total revenues growth in comparison with year 2002 was achieved mostly by growth "Revenues for sale services" and of which "Revenues for track fees", which grew with an index of 1,12. Favourable development of this indicator in comparison with year 2002 was caused by increased number of billed service units in year 2003 by 59,673.

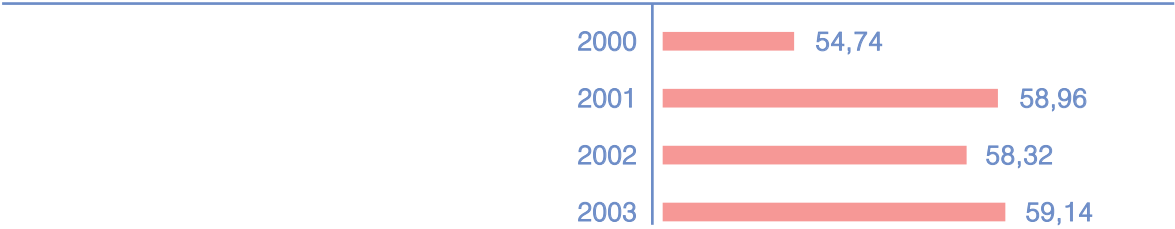
There was also recorded growth in other items apart from Revenues for sale services.

There are following composition of revenues indicators according type for year 2003 and in comparison with year 2002:

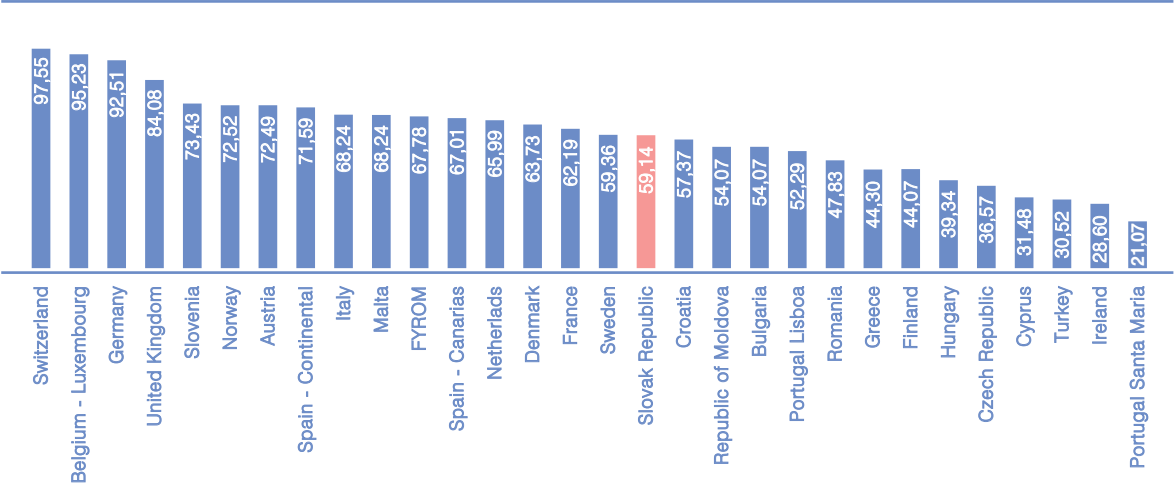
Evolution of revenues for 2000 to 2003 years ('000 SKK)



Evolution of unit rate of Slovak Republic (EURO)



EUROCONTROL En Route Unit Rates of members state for 2003 year (EURO)



Costs

In evaluating period of year 2003 the effective volume of consumed cost for securing tasks resulting from foundation charter was SKK 1,311,939.5 thousand.

Costs in year 2003 were higher in comparison with year 2002 by SKK 143,006.1 thousand, representing with an index of 1,12. Higher revenues growth than costs growth has positive effect for profit formation.

In year 2003 in comparison with year 2002 most of individual cost items were higher.

Expenses for Year 2003 ('000 SKK)	
Production consumption	31 323,4
Services	178 194,0
Personnel Expenses	517 313,7
Taxes and fees	1 473,7
Other operating expenses	120 179,0
Depreciation and amortisation	285 908,3
Additions to provisions and reduction in prepaid expenses	52 851,7
Financial assets	85 387,8
Extraordinary expenses	4 046,7
Income tax on ordinary Items	35 261,2

Evolution of expenses for 2000 to 2003 years ('000 SKK)

2000	961 091,9
2001	1 116 469,4
2002	1 163 933,1
2003	1 311 939,5

Profit/Loss for the Year

The state-owned company LPS SR attained profit before taxation for year 2003 of SKK 150,833.2 thousand. Having transferred the tax, there remained a real available profit amounting SKK 115,572.0 thousand.

In comparison with year 2002 the profit was higher by SKK 37,771.4 thousand, while in year 2002 the net profit reach SKK 77,800.6 thousand. In percentage it presents increase by 48,6 %

Progressive total revenues growth in comparison with total costs growth had positive influence for creation improved profit in year 2003 in comparison with year 2002. In year 2002 the costs had share on the total revenues 93,76 %, in year 2003 only 91,90 %, what means decrease by 1,86 %.

There was made assumption for improvement of all profitability indicators was made by achievement of higher net profit, which are expressed of LPS SR activity evaluation

Fulfilment of conditions of a loan by the EIB and reimbursement of debt

As of 1 January 2004, all funds of a loan were transferred on the account of the LPS SR for the purpose of providing for the Project of air-traffic services in lines with the Financial contract concluded between the EIB, the Slovak Republic and LPS SR Conditions related to reimbursement of the loan were continuously met by the LPS SR in consent with the schedule of payments

In 2003 the LPS SR continued to repay the long-term loan from the EIB. In February, the seventh instalment was reimbursed in the amount of SKK 40,481.1 thousand, while in August the eight instalment of the loan was repaid in the amount of SKK 40,456.6 thousand according to the approved schedule of payments. Within the period monitored, the interests of the loan were settled in February in the total amount SKK 11,181.0 thousand SKK, while in August totally amounting SKK 10,060.3 thousand SKK. Having settled the loan as of 31 December 2003, the balance of the loan was recalculated by the current exchange rate in the value of SKK 309,586.1 thousand.

In compliance with the wording of the agreement on assuming rights and obligations, the LPS SR notified the Ministry of Transport, Posts and Telecommunications on updated schedule of repaying the loan and interests of the loan for 2004, retaining the amount equal to that of the following instalment as a minimum on a deposit account. The LPS SR was developing surveys of the current condition of loans with the governmental guarantee upon a requirement by the Ministry of Transport, Posts and Telecommunications.

All conditions thus resulting from the Financial agreement between the EIB, the Slovak Republic and LPS SR as well as from the Agreement on assuming rights and obligations of the agreement concluded between the ministry of Finance of the Slovak Republic and the Ministry of Transport, Posts and Telecommunications of the Slovak Republic on 28 April 1995 were properly and timely satisfied by the LPS SR.

Capital expenditures

For 2003, the LPS SR company approved an investment plan in the amount of SKK 320,446.75 thousand. Financial withdrawal amounted SKK 251,258.43 thousand, out of which SKK 163,583.01

thousand. to procure tangible fixed assets, SKK 6,708.71 thousand to procure intangible investment assets and SKK 80,966.71 thousand for instalments of the loan by the EIB. The loan by the EIB was used to implement demanding investment assignments in the field of technical support and construction investments. Implementation of investment projects allowed not only to keep but in most cases even to improve a high standard of services provided.

The number of investment projects implemented in 2003 totalled 112, out of that:

- a) 72 projects newly commenced,
- b) 40 projects carried forward from the past years.

Out of the total number of the implemented 112 investment projects:

- a) 67 projects finished,
- b) 45 projects carried forward to 2004.

Evolution of Capital Expenditures ('000 SKK)

2000	291 617
2001	229 644
2002	197 250
2003	251 258

Capital Expenditures ('000 SKK)

	2002	2003
Resources in total (investment plan)	305 410	320 447
of which:		
Own resources	305 410	320 447
Loan from the EIB	0	0
Supplier loan	0	0
Use in total (withdrawal of the investment plan)	197 250	251 258
of which:		
Construction investment	191 499	244 549
of which:		
Construction investment	20 689	4 012
Machinery investment	170 507	237 822
Means of transport	0	2 715
Inventory	290	0
Land	13	0
Intangible investment	5 751	6 709
Total investment into operation in total	105 163	94 504
of which:		
Tangible fixed assets	100 473	88 794
Intangible investment assets	4 690	5 710

BALANCE SHEETA AS OF 31 December (in SKK thousands)

ASSETS TOTAL	1 862 828
Claims from subscribed share capital	-
Fixed assets	959 022
Long-term intangible fixed assets	48 614
Long-term tangible fixed assets	910 408
Long-term financial assets	-
Current assets	844 228
Inventory	46 090
Long-term receivables	5
Short-term receivables	274 923
Financial accounts	523 210
Other assets	59 578
LIABILITIES TOTAL	1 862 828
Capital and reserves	1 357 158
Issued capital	1 163 083
Capital funds	-
Funds created from profit	97 968
Retained earnings from previous year	- 19 465
Economic results from current period	115 572
Payables	499 490
Reserves	15 818
Long-term payables	65 912
Short-term payables	108 173
Bank loans and assistance	309 587
Other liabilities	6 180

PROFIT AND LOSS ACCOUNT AS OF 31 December (in SKK thousands)

Sold goods revenues	62
Cost of goods sold	43
Margin	20
Sales	1 321 476
Revenues from sale of goods and services	1 320 685
Change of the balance of company stock of own production	583
Activation	209
Production consumption	209 475
Added value	1 112 021
Personnel expenses	517 314
Taxes and fees	1 474
Depreciation and amortisation	285 908
Revenues from disposals of fixed assets and materials	15
Net book value of fixed assets and materials disposed	-
Reversal of provisions and creation of prepaid expenses	24 271
Additions to provisions and reduction in prepaid expenses	15 744
Reversal of adjustments to operating assets	37 939
Additions to adjustments to operating assets	37 108
Other operating revenues	5 233
Other operating expenses	120 179
Reclassification of operating revenues	-
Reclassification of operating expenses	-
Result from operating activities	201 753
Financial revenues	35 770
Financial expenses	85 388
Creation of reserves and provisions for financial expenses	2 729
Additions to provisions	-
Transfer of financial revenues (-)	-
Transfer of financial expenses (-)	-
Profit /Loss from financial operations	-46 889
Due income tax from current operations	35 729
Deferred income tax from current operations	-
Profit /Loss from current operations	119 135
Extraordinary revenues	16
Extraordinary expenses	4 047
Due income tax from extraordinary operations	-468
Deferred income tax from extraordinary operations	-
Profit /Loss from extraordinary operations	-3 563
Profit /Loss for accounting period	115 572

CASH FLOW REPORT AS OF JANUARY 1, 2003 FOR THE YEAR 2003

Cash and cash equivalents as of January 1, 2003	392 062
Cash flow from operating activities	443 595
Revenues from goods for resale (604) +	62
Cost of goods sold (504) -	-43
Revenues from goods produced and services (601, 602)	1 320 685
Materials and energy (501-503)	-31 281
Services (class 51)	-178 194
Personnel expenses	-418 188
Remuneration of board members (523)	-2 155
Social security expenses (524, 525, 526)	-84 207
Other personnel expenses (527, 528)	-12 764
Indirect taxes and fees (class 53)	-1 474
Revenues from disposals of fixed assets and materials (641, 642)	15
Other operating revenues (644, 645, 646, 648)	5 233
Other operating expenses (543-546, 548)	-120 179
Current (591, 595)	-33 917
Deferred (592)	
Cash flow from financing activities	-146 297
Interest income (662)	15 315
Interest expense (562)	-27 170
Exchange rate profit (663)	20 455
Exchange rate loss (563)	-25 381
Other financial revenues (668)	0
Other financial expenses (568, 569)	-32 837
Expenditures linked with lowering social fund (472)	-15 713
Expenditures linked with provided loans	-80 967
Cash flow from extraordinary activities	-4 031
Extraordinary revenues (class 68)	16
Extraordinary expenses (class 58)	-4 047
Cash flow from tax on extraordinary items	0
Current (593)	0
Deferred (594)	0
Cash flow used by investing activities	-170 287
Property, plant and equipment, intangible assets	-170 287
Other specific items with effect in cash flow	8 169
Cash and cash equivalents of December 31, 2003	523 210

**Auditor's opinion regarding an audit of ordinary annual financial statement as of December 31, 2003
of the company Air-traffic services of the Slovak Republic, state-owned enterprise Bratislava**

I have carried out an audit of the enclosed ordinary annual financial statement of the company Air-traffic services of the Slovak Republic, state-owned company, which was finished on December 31, 2003. The audit was performed on the basis of an order and approval by the company's management.

The management of the company is liable for keeping accountancy, so that it is complete, conclusive and correct as well as for compiling the financial statement in order to provide a true and faithful image of the assets and liabilities, profits and loss and financial position of the company. Up to responsibility of an auditor is, pursuant to applicable auditing standards, to express his/her opinion on this financial statement, issuing from results of auditing works.

I performed the audit of the financial statement in compliance with the Act No. 73/1992 of the Collection of Laws on Auditors and Slovak Chamber of Auditors and with Slovak auditing standards pursuant to which I should make an audit in order to obtain reasonable rate of certainty that the financial statement was not distorted in any significant aspect. The audit encompassed verification of accounting records and other information carried out in a detailed manner and proving the amounts in the financial statement. Further the audit contains evaluation of accounting principles, principles of appreciation and procedures used in drawing up the financial statement, a judgement of correctness of accounting principles and significant estimates applied as well as overall evaluation of the financial statement, financial position and continuity of functioning of the accounting unit. Based on the results of the auditing procedures used, I have not found any discrepancies. Accounting records of the company were in compliance with the applicable Act on Accountancy, procedures of accounting and related legal regulations in all important aspects.

The economic result shown considers all costs and revenues that are related to the given accounting period in material and time terms. As well the value of assets and liabilities was approved on the basis of physical and documentary stocktakings performed, while no differences in reported values were found out.

When checking the financial statement, I acquired a conviction the audit provided an unbiased base for me to express the following opinion without any reservations:

In my opinion, the annual financial statement of the company Letové prevádzkové služby SR, štátny podnik (Air-traffic services of the Slovak Republic, state, owned enterprise) faithfully, and in all its significant relations, expresses property and financial situation as of December 31, 2003, profit and loss for the said year, while it has been processed in compliance with the Act No. 431/2002 of the Collection of Laws on Accountancy within the wording of later regulations.

In Bratislava, on 15 April 2004

Auditor liable:



**Independent Auditor's Report on behalf of the Supervisory Board
of Letové prevádzkové služby SR, State owned enterprise, M. R. Štefánik airport, Bratislava
on an audit of regular annual report for year 2003**

I have carried out an audit of harmony between annual report of the Letové prevádzkové služby Slovenskej republiky, State owned enterprise with audited financial statements for the year, which was finished on December 31, 2003 and which is presented together with my Auditor's Report in this Annual Report.

I performed the audit in compliance with Slovak auditing standards applied for concordance audit. According to these standards I should plan and make an audit in order to obtain reasonable rate of certainty that the annual report of the company Letové prevádzkové služby SR, State owned enterprise correspondence with those financial statements I audited. The audit encompassed verification based on tests and study other financial and non-financial information, which are besides financial statements included in this annual report, to make sure, that they are consistent with financial statements. I acquired a conviction the audit provided an unbiased base to express my opinion.

In my opinion, annual report for the year 2003 of the Letové prevádzkové služby Slovenskej republiky, State owned enterprise is in all significant relations in compliance with audited financial statements for the year, which was finished on December 31, 2003 and which is altogether with auditor's report presented in this annual report.

In Bratislava, 10 August 2004

Auditor liable:



Ing. Jana Tomšíková
auditor SKAu No. of certificate 454

Independent Auditors' Report

Audit in accordance with International Standards on Auditing

In the line with the financial contract on a loan from the EIB Luxembourg, an audit of economic performance according to international standards was performed in LPS SR. The report of an independent auditor KPMG Slovensko spol. s r. o. concludes that financial statements describe fairly in all material aspects the financial situation of the company as of December 31, 2003, and results of its activities as well as cash flow of the year 2003 are in line with international accounting standards.



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Independent Auditors' Report

To the Management of Letové prevádzkové služby Slovenskej republiky, š.p.:

We have audited the accompanying balance sheet of Letové prevádzkové služby Slovenskej republiky, š.p. as at 31 December 2003 and the related statements of income, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion the financial statements give a true and fair view of the financial position of Letové prevádzkové služby Slovenskej republiky, š.p. as at 31 December 2003 and the results of its operations, changes in equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Slovensko spol. s r.o.

31 May 2004
Bratislava, Slovak Republic



KPMG Slovensko spol. s r.o., a company
incorporated under the Slovak Commercial Code,
is the Slovak member firm of KPMG International,
a Swiss cooperative.

Evidenčné číslo licencie auditors: 96
Licence number of statutory auditor: 96

IČO/Registration number: 31 348 238
Obchodný register Okresného súdu Bratislava I, oddiel Sro, vložka č. 4864/B
Commercial register of District court Bratislava I, section Sro, file No. 4864/B

Income Statement for the year ended 31 December 2003
(Expressed in thousands of Slovak Crowns)

	Note	2003	2002
ASSETS			
Non-current assets			
Property, plant and equipment	2	837,363	804,838
Intangible assets	3	9,819	32,311
Deferred tax asset	4	29,469	-
Total non-current assets		876,651	837,149
Current assets			
Inventories	5	19,115	16,193
Trade and other receivables	6	230,449	237,749
Cash and cash equivalents		523,210	392,062
Total current assets		772,774	646,004
Total assets		1,649,425	1,483,153
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital		1,163,083	1,163,083
Legal reserve and other capital funds		97,968	35,167
Accumulated losses		(108,635)	(275,112)
Total capital and reserves	7	1,152,416	923,138
Non-current liabilities			
Interest bearing loans and borrowings	8	232,189	318,090
Other non-current liabilities		902	88
Provision for retirement benefits	9	36,244	-
Total non-current liabilities		269,335	318,178
Current liabilities			
Trade and other payables	10	133,832	155,027
Interest bearing loans and borrowings	8	77,397	79,522
Income taxes payable		16,445	7,288
Total current liabilities		227,674	241,837
Total equity and liabilities		1,649,425	1,483,153

Income Statement for the year ended 31 December 2003
(Expressed in thousands of Slovak Crowns)

	Note	2003	2002
Revenues			
Air traffic control services		1,320,165	1,174,711
Other operating income		5,831	8,569
Total revenues		1,325,996	1,183,280
Personnel expenses	11	(570,725)	(517,030)
Depreciation and amortization	2, 3	(153,790)	(248,056)
Other operating expenses	12	(355,613)	(338,720)
Total operating expenses		(1,080,128)	(1,103,806)
Profit from operations		245 868	79,474
Net financing costs	13	(12,610)	(20,867)
Profit before tax		233,258	58,607
Income tax expense	4, 14	(3,980)	(16,792)
Net profit for the year		229,278	41,815

Statement of Changes in Equity for the year ended 31 December 2003
(Expressed in thousands of Slovak Crowns)

	Issued capital	Legal reserve fund	Other capital funds	Accumulated losses	Total
Balance at 1 January 2002	1,010,457	10,308	162,625	(302,067)	881,323
Increase of issued capital	152,626	-	(152,626)	-	-
Transfer to fund of expansion	-	-	12,617	(12,617)	-
Transfer to legal reserve fund	-	2,243	-	(2,243)	-
Net profit for the year	-	-	-	41,815	41,815
At 31 December 2002	1,163,083	12,551	22,616	(275,112)	923,138
Balance at 1 January 2003	1,163,083	12,551	22,616	(275,112)	923,138
Transfer to fund of expansion	-	-	57,000	(57,000)	-
Transfer to legal reserve fund	-	5,801	-	(5,801)	-
Net profit for the year	-	-	-	229,278	229,278
At 31 December 2003	1,163,083	18,352	79,616	(108,635)	1,152,416

Cash Flow Statement for the year ended 31 December 2003
(Expressed in thousands of Slovak Crowns)

	2003	2002
OPERATING ACTIVITIES		
Cash receipts from customers	1,330,374	1,140,578
Cash paid to suppliers and employees	(531,674)	(809,500)
Cash generated from operations	798,700	331,078
Income tax paid	(16,580)	(10,286)
Cash flows from operating activities	782,120	320,792
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(157,038)	(112,726)
Acquisition of intangible assets	(6,785)	(4,705)
Interest received	15,315	11,533
Cash flows used by investing activities	(148,508)	(105,898)
FINANCING ACTIVITIES		
Loan repayments	(88,025)	(83,357)
Interest paid	(22,377)	(26,621)
Cash flows used by financing activities	(110,402)	(109,978)
Net increase in cash and cash equivalents	131,148	104,916
Cash and cash equivalents at beginning of year	392,062	287,146
Cash and cash equivalents at end of year	523,210	392,062

GENERAL INFORMATION

Air Traffic Services of the Slovak Republic (hereinafter "the Company") is a state owned company domiciled at Letisko M. R. Štefánika, 823 07 Bratislava, the Slovak Republic.

Air Traffic Control of the Slovak Republic was established as a state owned budget contributory organization on 1 January 1993 following the separation of the Slovak and Czech Republics. On 17 November 1999 the Slovak Ministry of Transportation, Post Offices and Telecommunications issued a decision on dissolution of the budget contributory organization Air Traffic Control of the Slovak Republic as at 31 December 1999 and establishment of the state owned company Letové prevádzkové služby Slovenskej republiky, š. p. as at 1 January 2000. All assets were transferred under the administration of the Slovak Ministry of Transportation, Post Offices and Telecommunications as of the dissolution of the budget contributory organization. These assets were transferred into the stewardship of the state owned company. The assets used for the Company's operations and administrated by the Company are owned by the State and they are disclosed in the Company's accounts.

The main activity of the Company is the provision of flight navigation services to airline operators flying over the Slovak Republic and to those landing at certain Slovak airports.

The Slovak Republic has been a member of EUROCONTROL, the European Organization for the Safety of Air Navigation since 1 January 1997. At that time, the Slovak Republic became a party to a multilateral agreement with EUROCONTROL relating to the collection of en route navigation service charges. The Company performs this function on behalf of the State.

1. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below.

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board (IASB) and with interpretations issued by the International Financial Reporting Committee of the IASB.

Basis of preparation

The financial statements have been prepared under the historical cost convention and do not form part of the statutory accounts of the Company, which have been prepared separately in accordance with the Slovak Act on Accounting. The financial statements were approved by the Directors on 31 May 2004.

The accounting policies are consistent with those used in the previous year.

The financial statements are presented in thousands of Slovak crowns, rounded to the nearest thousand (TSKK or thousands SKK), unless otherwise stated.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash deposits and petty cash.

Trade and other receivables

Trade and other receivables are stated at expected realizable value, after provision for bad and doubtful debts, if necessary.

Inventories

Inventories, mainly spare parts and supplies, are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business.

The costs of spare parts and supplies are determined using the weighted average cost method and includes expenditures incurred in acquiring the inventories and bringing them to their existing location.

Property, plant and equipment

Property, plant and equipment are stated at acquisition cost less accumulated depreciation and impairment losses, except for certain land. Upon the establishment of the budget contributory organization on 1 January 1993, all land to which the budgetary organization held title was capitalized in its accounts based on values previously determined under a Czechoslovak government decree. Such values would not necessarily reflect the market value of land at that time. As at 1 January 1993, other fixed assets were transferred to the budgetary organization at the net book value recorded by the predecessor Czechoslovak air traffic control administration. The accuracy of the amounts transferred was attested to by both the Slovak and Czech statutory auditors at that time.

Depreciation is provided using the straight-line method over the estimated useful life of each asset as follows:

<u>Asset</u>	<u>Period</u>
Buildings and infrastructure	30 or 40 years
Plant and equipment	4, 8 or 15 years

Expenditures on repairs and maintenance of property, plant and equipment made to restore or maintain future economic benefits expected from the assets is recognized as an expense when incurred.

Impairment

The carrying amounts of the Company's assets, other than inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the income statement.

Intangible assets

Software costs are capitalized and amortized using the straight-line method over a period of two, three or four years (2002: four years).

Interest bearing loans and borrowings

Interest bearing loans and borrowings are recognized at cost. The interest bearing loans and borrowings with fixed interest rates have interest rates that are considered indicative of the prevailing market rates available to the Company at the balance sheet date.

Provision for retirement benefits

The Company's net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefits that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value. The discount rate is the yield at the balance sheet date for high quality bonds that have maturity dates approximating the terms of the Company's obligations.

Employee benefits - defined contribution plan

Obligations for contributions to defined contribution pension plans are recognized as an expense in the income statement as incurred.

Trade and other payables

Trade and other payables are stated at cost.

Foreign currency

Transactions denominated in foreign currencies are translated to Slovak Crowns at the exchange rate on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated to Slovak crowns at the exchange rate on the balance sheet date. Resulting exchange differences, both realized and unrealized, are recognized in the income statement for the year.

Revenue recognition

Revenue from services rendered is recognized in the income statement based on transactions (overflights and approaches) completed at the balance sheet date.

Operating lease payments

Payments made under operating leases are recognized in the income statement on a straight-line basis over the term of the lease.

Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested and foreign exchange gains and losses.

Income taxes

Income tax on the profit or loss for the year comprises of current and deferred taxes.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefits will be realized.

2. PROPERTY, PLANT AND EQUIPMENT

<u>In thousands of SKK</u>	<u>Land and buildings</u>	<u>Plant and equipment</u>	<u>Assets under construction</u>	<u>Total</u>
Cost				
At 1 January 2003	519 394	1 596 248	40 287	2 155 929
Additions	3 080	85 638	69 318	158 036
Disposals	(69)	(19 637)	-	(19 706)
At 31 December 2003	<u>522 405</u>	<u>1 662 249</u>	<u>109 605</u>	<u>2 294 259</u>
Accumulated depreciation and impairment losses				
At 1 January 2003	118 070	1 233 021	-	1 351 091
Charge for the year	14 032	111 479	-	125 511
Impairment provision to land	-	-	-	-
Disposals	(69)	(19 637)	-	(19 706)
At 31 December 2003	<u>132 033</u>	<u>1 324 863</u>	<u>-</u>	<u>1 456 896</u>
Net book value				
At 1 January 2003	<u>401 324</u>	<u>363 227</u>	<u>40 287</u>	<u>804 838</u>
At 31 December 2003	<u>390 372</u>	<u>337 386</u>	<u>109 605</u>	<u>837 363</u>

Impairment losses to land recognised in 2002 are included in the income statement under Other operating expenses. The impairment provision relates to land acquired in 1995 and 1996 for the planned construction, which was consequently cancelled (see note 11).

3. INTANGIBLE ASSETS

<u>In thousands of SKK</u>	<u>Software</u>
Cost	
At 1 January 2003	235 129
Additions	5 787
Disposals	(335)
At 31 December 2003	<u>240 581</u>
Accumulated depreciation	
At 1 January 2003	202 818
Charge for the year	28 279
Disposals	(335)
At 31 December 2003	<u>230 762</u>
Net book value	
At 1 January 2003	<u>32 311</u>
At 31 December 2003	<u>9 819</u>

4. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities as at 31 December 2003 and 2002 are attributable to the items detailed in the table below:

<u>In thousands of SKK</u>	<u>Assets</u>		<u>Liabilities</u>		<u>Net</u>	
	2003	2002	2003	2002	2003	2002
Property, plant and equipment	6 019	43 077	-	-	6,019	43 077
Inventories	4 707	5 253	-	-	4 707	5 253
Receivables	17 057	24 791	(3 155)	(2 382)	13 901	22 409
Interest bearing borrowings	913	10 714	(3 146)	(2 119)	(2 232)	8 595
Provision for employee benefits	6 886	-	-	-	6 886	-
Payables	188	112	-	-	188	112
Deferred tax assets / (liabilities)	35 770	83 947	(6 031)	(4 501)	29 469	79 446
Set off of tax	(6 301)	(4 501)	6 301	4 501	-	-
Valuation allowance	-	(79 446)	-	-	-	(79 446)
Net deferred tax assets/ (liabilities)	29 469	-	-	-	29 469	-

In 2002 The Company provided a valuation allowance on the deferred tax assets due to uncertainty about the availability of future taxable profits against which the deferred tax assets could be utilized. The deferred tax assets as at 31 December 2003 have been calculated using a rate of 19 % (2002: 25 %).

5. INVENTORIES

<u>In thousands of SKK</u>	<u>2003</u>	<u>2002</u>
Spare parts and supplies	41 001	34 849
Provision for slow-moving items	(21 886)	(18 656)
	19 115	16 193

6. TRADE AND OTHER RECEIVABLES

<u>In thousands of SKK</u>	<u>2003</u>	<u>2002</u>
Trade accounts receivable	310 295	294 454
Provision for bad and doubtful debt	(89 772)	(9 164)
Advances to suppliers	3 878	889
Value added tax receivable	3 070	10 539
Prepaid EUROCONTROL membership fee	-	23 760
Prepaid rent	-	2 266
Other receivables and prepaid expenses	2 978	5 005
	230 449	237 479

7. CAPITAL AND RESERVES**Issued Capital**

Following the separation of the Czech and Slovak Air Traffic Services on 1 January 1993 the State contributed as capital net assets of TSKK 258,454 and made subsequent cash contributions of TSKK 221,330. With the transformation of the Company from a budget contributory organization to a state owned company on 1 January 2000, statutory funds amounting to TSKK 530,673 were capitalized, thereby increasing the issued capital to TSKK 1,010,457.

Issued capital was increased in 2002 by the transfer of TSKK 152,626 from other capital funds. The increase in issued capital was approved by the Supervisory Board on 28 August 2002. As at 31 December 2002, the Issued capital was TSKK 1,163,083. In 2003 no changes occurred.

Other capital funds

The Supervisory Board decided on 23 - 24 June 2003 to transfer to the Fund of expansion an amount of TSKK 57,000 from the 2002 profit. As at 31 December 2003, the Other capital funds were TSKK 79,616. These capital funds are not readily available for distribution.

Legal reserve fund

The increase in legal reserve fund in amount of TSKK 5,801 was approved by the Supervisory Board on 23 - 24 June 2003. As at 31 December 2003, the Legal reserve fund was TSKK 18,352. This reserve fund is not available for distribution and should be used only as a reserve against future losses arising from business activities.

8. INTEREST BEARING LOANS AND BORROWINGS

<u>In thousands of SKK</u>	<u>2003</u>	<u>2002</u>
Investment loans from the European Investment Bank	309 586	397 612
Less: current portion	(77 397)	(79 522)
	232 189	318 090

Loans denominated in USD and EUR are repayable in sixteen semi-annual instalments from February 2000. As at 31 December 2003 the outstanding balance of loans denominated in EUR and USD was EUR 7,007,483 (2002: EUR 8,759,354) and USD 642,500 (2002: USD 803,125), respectively.

Conditions and repayments of non-current debt are scheduled as follows:

<u>In thousands of SKK</u>	<u>Total</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Secured bank loans:				
EUR - fixed from 4.23 % to 7 % p.a.	216 326	72 109	72 109	72 108
USD - fixed at 6.35 % p.a.	<u>15 863</u>	<u>5 288</u>	<u>5 288</u>	<u>5 287</u>
Total	<u>232 189</u>	<u>77 397</u>	<u>77 397</u>	<u>77 395</u>

Loans payable to the European Investment Bank of TSKK 309,586 (2002: TSKK 397,612) are guaranteed by the Government of the Slovak Republic.

9. PROVISION FOR RETIREMENT BENEFITS

<u>In thousands of SKK</u>	<u>2003</u>	<u>2002</u>
Present value of retirement benefits	<u>36 244</u>	<u>-</u>

Under the collective agreement the Company pays to employees retirement benefits. Each employee, who has been employed at the Company for 10 years or less, is eligible for a retirement benefit in the amount of 3 monthly salaries, if employed for more than 10 years this amount increases to 4 monthly salaries.

10. TRADE AND OTHER PAYABLES

<u>In thousands of SKK</u>	<u>2003</u>	<u>2002</u>
Trade accounts payable	4 771	43 263
Salaries, wages and social security payable	37 721	34 177
Employee income taxes	12 282	11 090
Accrued interest on loans and borrowings	5 928	7 629
Social fund (see below)	43 733	38 986
Other payables and accrued expenses	<u>29 397</u>	<u>19 882</u>
	<u>133 832</u>	<u>155 027</u>

Based on their Collective agreement, the Company operates a defined contribution plan for the capital life insurance of employees from the social fund. It was agreed with the insurance company that the minimum amount contributed by the Company should not be lower than TSKK 3 per annum per employee. In 2003, the Company contributed to the employees' capital life insurance an amount of TSKK 10,474 (2002: TSKK 9,635). In 2003, the Company also contributed from the social fund to the employees' supplementary pension insurance an amount of TSKK 270 (2002: TSKK 398) (see also note 10).

11. PERSONNEL EXPENSES

<u>In thousands of SKK</u>	<u>2003</u>	<u>2002</u>
Wages and salaries	420 355	389 606
Legal social insurance	66 478	65 785
Employee benefits	36 244	-
Supplementary pension insurance	17 855	16 419
Social fund expense	12 638	13 302
Additional contribution to social fund	15 000	30 000
Remuneration of Supervisory Board	<u>2 155</u>	<u>1 918</u>
	<u>570 725</u>	<u>517 030</u>

The average number of employees during 2003 was 495 (2002: 508) including 8 directors (2002: 8).

The Company operates a defined contribution plan for supplementary pension insurance for employees. In 2003, the Company contributed TSKK 18,125 (2002: TSKK 16,817), representing 6 % for the air traffic controllers and 3 % for other employees from the gross salaries of employees with employment contracts signed for an indefinite period and 1 - 2 % for employees with employment contracts signed for finite periods. An amount of TSKK 17,855 (2002: TSKK 16,419) is recognized in the income statement as expense and an amount of TSKK 270 (2002: TSKK 398) was paid from the social fund.

The additional contribution to the social fund has been made based on the decision of the Supervisory Board of the Company on 23 - 24 June 2003.

12. OTHER OPERATING EXPENSES

<u>In thousands of SKK</u>	<u>2003</u>	<u>2002</u>
EUROCONTROL membership fees	95 740	66 156
Telecommunication costs	35 186	37 725
Insurance	32 381	30 529
Spare parts and supplies	30 227	31 726
Meteorological services	26 500	26 500
Repairs and maintenance	25 616	27 517
Maintenance fees for technical software	26 069	8 517
Travel	16 355	15 985
Rent of premises	14 030	15 571
State air traffic inspection	13 102	13 490
Other services	29 424	36 420
Training	3 573	6 325
Impairment provision (note 2)	-	18 530
Provision for spare parts	3 230	6 976
Provisions and write-offs (write backs) of bad and doubtful debts	2 074	(6 165)
Other operating expenses	<u>5 056</u>	<u>5 918</u>
	<u>355 613</u>	<u>338 720</u>

Membership fees paid to EUROCONTROL increased significantly in 2003. The contribution is calculated in advance and is based on certain factors such as GDP of the country or number of over flights. Both factors have increased in 2003 and are expected to grow in the following years.

The impairment provision relates to land acquired in 1995 and 1996 for the construction of the head office (European flight center). A decision was made not to move the head office and, as a result, the land has been valued at estimated current market price.

13. NET FINANCING COSTS

<u>In thousands of SKK</u>	<u>2003</u>	<u>2002</u>
Interest income	<u>15 315</u>	<u>11 533</u>
Interest expenses	(19 420)	(24 709)
Net foreign exchange losses	<u>(8 505)</u>	<u>(7 691)</u>
Total financial expenses	<u>(27 925)</u>	<u>(32 400)</u>
Net financial costs	<u>(12 610)</u>	<u>(20 867)</u>

14. RECONCILIATION OF EFFECTIVE TAX RATE

Income taxes have been provided for at a rate of 25 % (2002: 25 %) of taxable income based on Slovak accounting and tax regulations and deferred tax at a rate of 19 % (2002: 25 %). The difference between the Company's effective and the corporate tax rates is a result of permanent and temporary differences arising from the inclusion of certain revenue and expense items in the accounting income that are not included in the calculation of taxable income. Reconciliation between accounting income and taxable income is as follows:

<u>In thousands of SKK</u>	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
Profit before tax		<u>233 258</u>		<u>58 607</u>
Income tax using the prevailing corporation tax rate	25 %	58 315	25%	14 652
Non-deductible expenses	3 %	6 586	14 %	8 271
Non-taxable income	(2 %)	(5 814)	(2 %)	(917)
Temporary differences	<u>(28 %)</u>	<u>(64 168)</u>	<u>(9 %)</u>	<u>(5 213)</u>
	<u>2 %</u>	<u>3 980</u>	<u>28 %</u>	<u>16 792</u>

Income tax expense recognised in the income statements is as follows:

<u>In thousands of SKK</u>	<u>Note</u>	<u>2003</u>	<u>2002</u>
Current year tax expense		33 449	16 793
Deferred tax income	4	<u>(29 469)</u>	—
Total income tax expense in income statement		<u>3 980</u>	<u>16 793</u>

15. RELATED PARTY TRANSACTIONS

During the year ended 31 December 2003, the Directors of the Company and the Supervisory Board members received wages and salaries amounting to TSKK 17,499 (2002: TSKK 14,632) and TSKK 8,246 (2002: TSKK 9,449), respectively.

16. COMMITMENTS

Capital commitments

As at 31 December 2003, the Company has entered into purchase agreements for property, plant and equipment totalling approximately TSKK 161,294 (2002: TSKK 42,595).

Lease obligations

The Company entered into a five-year lease for office space in 2000. The minimum annual lease payments are TSKK 9,533.

Capital life insurance for employees

Based on a frame agreement for capital life insurance, the minimum obligation of the Company as an employer is to contribute from the social fund TSKK 3 for each employee per annum.

17. FINANCIAL INSTRUMENTS

Exposure to credit, interest rate and foreign currency risks arises in the normal course of the Company's business.

Credit risk

The Company has potential credit risk exposures on trade receivables and cash investments. The exposure to credit risk with regard to trade receivables is not concentrated due to a large customer base. Adequate provision is made for doubtful debts. The Company's cash balances are deposited with international banks operating in Slovakia. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Interest rate risk

The Company's operating income and operating cash flows are not directly affected by changes in market interest rates. Borrowings are at fixed interest rates so as to reduce exposure to volatility in interest rates.

Foreign currency risk

Foreign currency risk arises from the impact on the value of financial assets and liabilities from changes in foreign exchange rate.

The Company incurs foreign currency risk on income, costs and borrowings that are denominated in a currency other than Slovak crowns. The currency giving rise to this risk is primarily the Euro. The Company's exposure to foreign currency risk is limited by the matching of income, costs and borrowings in foreign currencies. For a split between Euro and US dollar borrowings, refer to note 8. The principal currencies giving rise to this risk in respect of sales and purchases is set out below.

<u>% of</u>	2003		2002	
	<u>Income</u>	<u>Costs</u>	<u>Income</u>	<u>Costs</u>
Slovak Crown	5 %	55 %	4 %	70 %
Euro	95 %	45 %	96 %	29 %
US Dollar	-	-	-	<u>1 %</u>
	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

Fair values

The carrying value of financial instruments (cash and cash equivalents, receivables, payables and loans) approximate their fair value.

18. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period presentation.

ACC	Area Control Centre
AFTN	Aeronautical Fixed Telecommunication Network
AIP	Aeronautical Information Publication
AIS	Aeronautical Information Service
APP	Approach Control Unit
ATCC	Air traffic control centre
ATCO	Air traffic controller
ATIS - VOLMET	Automatic Terminal Information Service - Meteorological Information for Aircraft in Flight
ATM	Air Traffic Management
CEATS	Central European Air Traffic Services
CNS	Communication, Navigation, Surveillance
EAD	European AIS Database
EAN	European Aeronautical Network
EATMP 2000 +	European Air Traffic Management Programme beyond the year 2000
ECAC	European Civil Aviation Conference
EIB	European Investment Bank
ESARR	Eurocontrol Safety Regulatory Requirements
EUROCONTROL	European Organization for the Safety of Air Navigation
FIR	Flight Information Region
ICAO	International Civil Aviation Organization
JAA	Joint Aviation Authorities
LPS SR (LPS SR, š. p.)	Air Traffic Services of the Slovak Republic
OAT	Operational Air Traffic
SAR	Search and Rescue
TMA	Terminal Control Area
TWR	Tower or Aerodrome Tower

Name	Letové prevádzkové služby Slovenskej republiky, štátny podnik
Registered address	Letisko M. R. Štefánika, 823 07 Bratislava, Slovenská republika
Legal form	state owned enterprise
Identification number of the organization	35 778 458
Basic capital of the company	SKK 1 163 083 thousand
Establishment date	January 1, 2000, on the basis of a decision of the Minister of Transport, Posts and Telecommunications of the Slovak Republic No 144/1999 of November 17, 1999, to dissolve the contributory organization Riadenie letovej prevádzky SR as of December 31, 1999.
Statutory body	Roman Bíro - director general
Supervisory Board	Martina Pastýriková - chairperson Ivan Litvaj - deputy chairman Jiřina Horňáková František Perutka Branko Šmilňák Silvia Czuczorová Viktor Svoboda Marián Šesták Peter Pajszér
Employees	498
Annual report Deposited at:	LPS SR, š. p. Letisko M. R. Štefánika, 823 07 Bratislava Corporate register