



Annual Report 2004

Letové prevádzkové služby Slovenskej republiky, štátny podnik

Air Traffic Services of the Slovak Republic







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Preface by Director General

Ladies and gentlemen,

I am extremely glad to state that with the end of the year 2004 our company succeeded the fifth year of its existence under current judicial standing and it successfully maintained a positive trend of the previous seasons. The results achieved during the last year has confirmed that the strategic program for increased capacity, efficiency and performance adopted back in the year 2003 was a right step on target.

For the company, as well as for the air transport as a whole, the year 2004 again was a challenge to increase a performance, quality and safety of air navigation services. Within the Slovak airspace the number of serviced flights repeatedly grew considerably. To be capable to absorb this growing trend in traffic, in addition to the strategic program for increased capacity, efficiency and performance adopted in the year 2003, the company was forced to support operatively the number of air traffic controllers. The result was that LPS SR provided users with a required level of capacity at nearly zero delays within the airspace of the Slovak Republic. During the year 2004 we experienced a significant increase in traffic when the number of flights within FIR Bratislava grew up for 21% at average. We served some 1100 flights at peak points. Since the company adopted cost-reducing measures, we were able to achieve sharp savings leading to 11% decrease in unit costs in national currency. The situation is promising and in the year 2005 we expect the unit rate will be decreased further from its 2004 level of EUR 55,65. Only a careful estimations and a strict observance of priorities in the area of operation, economy, investments and human resources flew into a better overall functionality of the ATM services provision.



Seeing the operational and financial results for the year 2004 our strategy has been proved once again, while it is obvious that the company enhanced the airspace capacity and thicken to achieve minimal delays.

Few years ago civil and military traffic were integrated to be able to cope with a new civil-military functions at ACC level. In addition, to optimize a civil-military co-operation and co-ordination at use of the airspace, a new ATC personnel has been activated in this new-built environment. In this context the rules of the EUROCONTROL's flexible use of airspace concept have been fully introduced. With regard to specific activities of military aircraft it is still essential to separate a special part of the traffic from the general one. And for the same reason it is also necessary to separate a responsibility for a provision of services between general service and military one, even though it is provided from the single operational centre located in Bratislava.

A positive traffic evolution as well as keeping the planned budget during the year 2004 led to a positive financial position. I can say that we were able to meet all obligations towards the State, our customers and our staff. The future increase of capacity depends on integration and creation of joint international air traffic centres.

It is obvious that effective ATM management is a crucial requirement for a future development of air transport. This is however possible only through the centralization of provided services. With no doubt the ATM industry has a global dimension but in our minds we often limit ourselves only to a space within our national borders.

What we need for ATM is a global solution for the airspace, eliminating its fragmentation caused by national boundaries.. The access right is confirmed by European Union's Single European airspace (SES).

LPS SR is ready and it wishes to commit itself in all the phases of the SES project and it supports the goal of the European airspace continuum. We also proceed our work within the CEATS project, the state of which unfortunately does not correspond to efforts already made and resources already invested. Therefore, the concerned air navigation service providers cooperate both multilaterally as well as bilaterally to achieve SES project while keeping a maximum effectiveness and fair operational costs. The Single European Sky project supported by multilateral co-operation between air traffic services providers is considered to be, subject to its flexibility, a tool for a wider application of the effective use of airspace. It also reflects changes of the ATM environment in which the air navigation service providers play a key role.

Ing. Roman Bíro
Director General

Report of the Supervisory Board

The Supervisory Board of Letové prevádzkové služby Slovenskej republiky, štátny podnik, evaluated 2004 the Company's business results at its meeting held on 24 May 2005 based on audit of financial statements conducted by auditor Ing. Jana Tomšíková. The Supervisory Board stated that the Company's economic activity is in compliance with valid laws and accounting regulations. The Supervisory Board also stated that planned indicators were met.

The Supervisory Board discussed a motion for the distribution of business result after taxation and approved the proposed distribution.

The Supervisory Board also discussed Report on the Company's Business for 2004 intended for the Company's founder.



Ing. František Perutka

Chairman of the Supervisory Board
of the state-owned company
Letové prevádzkové služby
Slovenskej republiky



Activities of the company in 2004

ATM

Air traffic services

En-route services

285 956 controlled flights were recorded in airspace of the Slovak Republic in a period from January to December 2004. This is an increase for 26% in comparison with 2003. In structure according to type of flights, the greatest increase was recorded in transit flights (249 764), i.e. increase for 53 486 flights (27 %).

Fifth control unit at ACC (Area Control Centre) Bratislava was launched on 15 June 2004 in order to meet requirements on increase of used airspace capacity and elimination of delays. Procedures for flow regulation were used sporadically, only in exceptional cases, particularly during implementation of new operation procedures or upon request of neighbouring ATS units. The ACC unit, including Flight Information Centre (FIC) unit, provides services to all flights within Bratislava flight information region (FIR), i.e. within the controlled area of 49 035 km² from ground up to the flight level FL660 (20 130 m), with the exception of airspace of control regions of six international aerodromes (CTR) and terminal control areas (TMA) of these aerodromes.

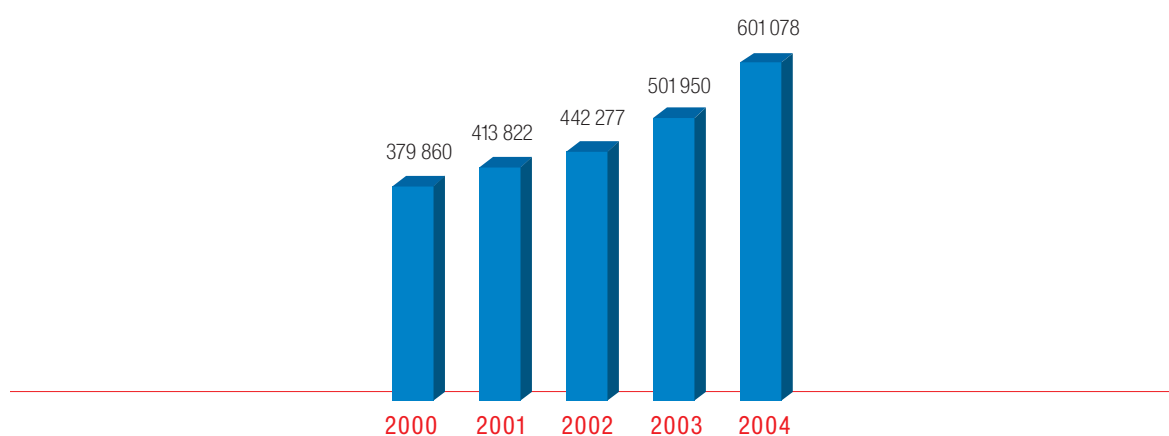
Aeronautical and approach services

Within the framework of aeronautical and approach services, 55 439 flights in total were served at six international aerodromes, where the LPS SR, š.p. provides its services. This is an increase for 12% in average in comparison with 2003. M. R. Štefánik Airport, Bratislava contributed to the increase with 21%. Increase at other aerodromes, except for Poprad-Tatry Airport with 24% decrease, was 10% in average.

The considerable increase in number of flights at the M. R. Štefánik Airport occurred thanks to an expansive development of low cost carrier Sky Europe Airlines, new destinations offered by domestic carries, as well as due to start of operation of foreign carriers (AUA, Lufthansa, Easy Jet), what resulted in increase of scheduled flights from Bratislava to the entire Europe. Development of operation at this aerodrome, as well as number of transits in the Bratislava TMA has permanently growing trend and it is expected that such development will continue.

Start of the first phase of the project centralisation of functions of air traffic services reporting offices and aeronautical information services offices was another important move in the area of other services provided at aerodromes. There was established Central Air Traffic Services Reporting Office Bratislava (CARO). Its task is to centrally collect process and distribute ATS reports and provide information from publications of Letecká informačná služba Slovenskej republiky (Aeronautical Information Service of the Slovak Republic) performance of which is deputed to the LPS SR, š. p. This is the first step towards implementation of so called "self-service briefing" at all aerodromes, as well as outside them.

Invoiced Service Units evaluation in '000 SKK (for years 2000 – 2004)



Total Number of Movements in FIR Bratislava for I. – XII. 2003 and 2004

Month	International Traffic				Domestic Traffic movements		Overflights FIR	
	Departures 2003	2004	Arrivals 2003	2004	2003	2004	2003	2004
I.	585	782	583	791	337	382	11 409	14 181
II.	581	773	587	771	545	438	10 452	13 652
III.	564	933	571	932	774	740	11 892	15 309
IV.	752	1 009	747	1 011	735	765	13 094	17 259
V.	867	1 259	890	1 271	905	813	17 099	23 046
VI.	1 057	1 519	1 042	1 525	1 097	1 058	20 472	25 106
VII.	1 097	1 596	1 111	1 595	930	850	24 206	28 772
VIII.	1 139	1 599	1 151	1 591	900	828	25 180	28 289
IX.	1 081	1 482	1 088	1 487	857	865	23 302	25 984
X.	992	1 244	991	1 235	838	684	21 235	24 094
XI.	877	1 044	886	1 049	670	626	14 493	17 677
XII.	857	989	852	983	444	440	13 896	16 395
I. – XII. 2004		14 229		14 241		8 489		249 764
I. – XII. 2003	10 449		10 499		9 032		206 730	
Index 04/03	1,36		1,36		0,94		1,21	

Month	Daily average			Top day		
	2003	2004	Index 04/03	2003	2004	Index
I.	12 914	16 136	1,25	417	521	1,25
II.	12 165	15 634	1,29	434	539	1,24
III.	13 801	17 914	1,30	445	578	1,30
IV.	15 328	20 044	1,31	511	668	1,31
V.	19 761	26 389	1,34	637	851	1,34
VI.	23 668	29 208	1,23	789	974	1,23
VII.	27 344	32 813	1,20	882	1 094	1,24
VIII.	28 370	32 307	1,14	915	1 077	1,18
IX.	26 328	29 818	1,13	878	994	1,13
X.	24 056	27 257	1,13	776	909	1,17
XI.	16 926	20 396	1,21	564	680	1,21
XII.	16 049	18 807	1,17	518	627	1,21
I. – XII. 2004		286 723			783	
I. – XII. 2003	236 710			649		
Index 04/03	1,21				1,21	

In cooperation with the Ministry of Defence of the Slovak Republic and operating units of the aerodrome, employees of the APP (Approach Control Units)/TWR (Aerodrome Control Towers) at the Štefánik Airport participated in organisation of Slovak International Air Display 2004 which took place from 12 to 13 June 2004 at the M. R. Štefánik Airport. This was the last year of Slovak International Air Display due to growing interest of air carriers in this aerodrome.

Safety in ATM

The LPS SR, š. p. provides services mainly with focus on safety, effectiveness and organised air traffic flow. To achieve and maintain high level of safety the Company defined its aim in this area within the framework of safety policy, it undertook to create a system of safety management of provided services and determined the safety as the highest priority against commercial, operation, environmental and social impacts.

Many routine activities were carried out in 2004 such as mainly creation and modification of operation management acts and information documents, including AIP SR, national equivalents to documents of international organisations ICAO and EUROCONTROL, investigation of incidents in the air traffic falling under the Company's competence, including suggesting of corrective and preventive measures and cooperation with external agencies during the investigation and the like. Assessing of upcoming changes of operation procedures of ATS units and related changes within technical systems was an important activity in the field of safety.

While in 2003 there occurred only one incident in which the LPS SR, š. p. participated, 3 incidents were recorded in 2004 and one of them was classified as a serious one.



CNS Area

Performance of aeronautical telecommunication services belongs to the LPS SR, §. p. type of business on the basis of Permit under Act No. 143/1998 Coll. on Civil Aviation (Aviation Act) as amended.

Quality of relevant ground technical devices corresponds with modern equipment of aeronautical engineering. High precision, readiness, in fact 24-7 availability and reliability of these devices result directly from demands on the Company's type of business.

Due to wide scope, specialisation, high demands and specific conditions, devices are usually divided into several basic categories operated by the LPS SR, §. p.

1. Communication devices

secure voice connection with aircrews, between single air traffic services units and between these units and technical units in Slovakia and neighbouring states. This is also a permanently growing, sophisticated and perspective group of devices and systems securing relevant data transfers. Also voice, picture and other information transmission may be considered as data transfer nowadays due to wide use and predominant digital processing. Apart from fixed communication circles for ground-to-ground connection the Company operates also 12 VHF transmitting and receiving centres in different localities of Slovakia.

2. Navigation devices

enable aircrews to determine their position and required flight direction. The fact that use of satellite navigation is growing does not decrease importance of this group. Instrument Landing System (ILS) as one of the devices, which belong to this group is irreplaceable with respect to accessibility of aerodromes in case of bad weather conditions. In terms of using area navigation RNAV (area navigation within the airspace) VHF omni-directional radio beacons (VOR) and distance measuring systems (DME) are inherent, however also using of non-directional radio beacons (NDB) is still well-founded. The Company operates 6 ILS, 5 VOR and 9 DME devices, of which 5 are collocated with VOR devices.

3. Radar devices

provide primary information about location of targets, their altitude, identity or speed vector if radar output is at the level of secondary processing. Depending on purpose of use radars are primary or secondary. One radar is not sufficient for radar coverage of the entire area of interest so the LPS SR, §. p. has several radars which are located at aerodromes and radar beacon points (Veľký Javorník and Veľký Bučejň). To increase the level of safety and information quality the LPS SR, §. p. is using also radar signals from abroad (Austria, Hungary, Czech Republic). This information represents an input signal for radar and flight data processing systems. The Company operates 5 primary and 2 mono-pulse secondary radars in total.

4. Radar and flight data processing systems

provide air traffic controllers with visual information about air situation including all required information about flights, such as location, altitude and speed of single targets, their flight plans with trajectories and time schedule, as well as with different auxiliary functions, which enable more accurate solving of a concrete traffic situation. Warnings provided by these devices in advance reduce probability of overlooking potentially dangerous conditions and they contribute to achieving higher rate of safety, which is the highest priority of services provided. For automated flight data processing (FDP) and radar data processing (RDP) with electronic flight strips the Company operates at ACC and APP/TWR units in Bratislava the EUROCAT 2000 system from Thales and Slovak LETVIS as a backup system. The LETVIS system is used at three other aerodromes.

Power distribution systems provide power as a crucial condition for operation of all electric devices. Crucial and demanding devices are connected to breakdown-free power sources with possible duplication and automatic switching over in order to secure uninterrupted power supply.

Due to serious consequences of possible events in the air traffic, but also due to other operation, safety and preventive reasons, all important communication channels and data are recorded on media by using recording devices, which also represent an important group essential for a modern operation.

Overall integration of all groups of devices in systems of remote control and surveillance from one centre continued.

If follows from the above-mentioned brief summary that keeping the entire complex in working order is a technically, financially and organisationally very challenging task and makes high demands on technical personnel. Working order of all CNS systems reached 99% and more.

Aeronautical information service

The LPS SR, §. p. provides aeronautical information service on the basis of Authorisation under Act No. 143/1998 Coll. on Civil Aviation (Aviation Act) as amended on behalf of the Slovak Republic and also in relation to foreign partners. Apart from the main activity, i.e. collection, processing and distribution of aeronautical information, including change services, the Company was providing also other activities, in particular issuing of L class regulations (Slovak equivalents to ICAO documents), JAR and other documents, activity of point-of-sale of ICAO documents and consultancy in the area of AIS according to requirements and needs of users.

In the area of automation, activities leading to improvement quality of services provided by using automated systems were focused on modification of systems in order to secure compatibility with EAD (European AIS Database), on eAIP project and preparation for provision of services through an interactive web page.

Within the framework of preparations for connection of the AIS national system to the EAD, there was signed a plan of transition and other related activities were secured. Works connected with connection of AIS systems to the EAD – ENA and realisation of modules securing communication with the EDA were carried out. The connection itself was realised in April 2004 and was followed by testing of single EAD functions.

Elaboration of survey “Provision of Flight Information to European Upper Area Airspace” for the European Commission started in the period under review. There were realised first two phases of the survey – analysis of present situation and proposal of alternative solutions, including their presentation in Brussels.

The following services were provided within the framework of consultancy services:

- Conversion of Greek AIP to three-part format – 1st phase.
- Professional consultancy for development of cartographic module realised by company Avitech, AG for Greek AIS.

Search and rescue service

The LPS SR, §. p. carries out coordination between civil, military and security agencies searching for aircraft and rescuing human life in case of aircraft accidents on the basis of Authorisation under Act No. 143/1998 Coll. on Civil Aviation (Aviation Act) as amended. To this end, the Integrated Co-ordination Centre of Aviation Rescue Operations (RCC) was established by the LPS. Services of the centre were used in 114 cases during 2004. In 77 cases we recorded a signal on frequencies intended for emergency locators, while in 36 cases these signals were located and proved to be false due to improper use of aircraft equipment. In two cases the device was activated in aircraft accident. Source of mayday signal was not detected in 39 cases. From Cospas/Sarsat assessment centre there were 16 requests for assistance in detection of source of monitored location transmitting mayday signal. Cooperation with RCC in Prague (36x), Budapest (5x), Warsaw (2x) and in Vienna (22x) was necessary in 65 cases.

The Centre is using a modern positioning and graphic information system for depicting radar locations of aircrafts, localisation of expected location of source of mayday signal and determination of areas of search.

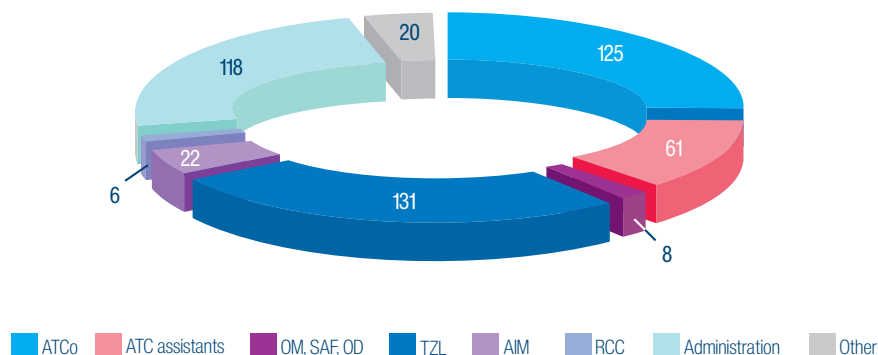
In May RCC employees took part in joint instructional-methodology training together with representatives of Armed Forces of the Slovak Republic and American Air National Guard from New York. Here we have presented our system of organisation of search and rescue to participants and they have reckoned it as very effective and of a high quality.

Joint negotiations of chiefs of rescue coordination centres from the Czech Republic, Austria and Slovakia evaluating level of cooperation are run continuously.

Human Resources

The LPS SR, §. p. has 484 employees, of that 147 women as at 31 December 2004. 11 employees in total were recruited in 2004 and 5 employees returned from maternity leave. The Company terminated employment with 25 workers within the period under review. 2 employees commenced maternity leave.

Staff Structure as of 31. December 2004



Economic Situation

Evaluation of the Company's Business Results for 2004

The basic mission of the LPS SR, š. p. is the integrated provision and procurement of air traffic services, aeronautical telecommunication service, aeronautical information service, search and rescue services and other tasks connected with accomplishment of the essential mission and business of the Company in order to secure safe, efficient and organised air traffic flow in the designated airspace and at aerodromes in the Slovak Republic.

Needs for securing the afore-mentioned tasks are expressed in short-term annual financial plans for single years. These plans specify needs in the area of cost items and financial sources for one-year period.

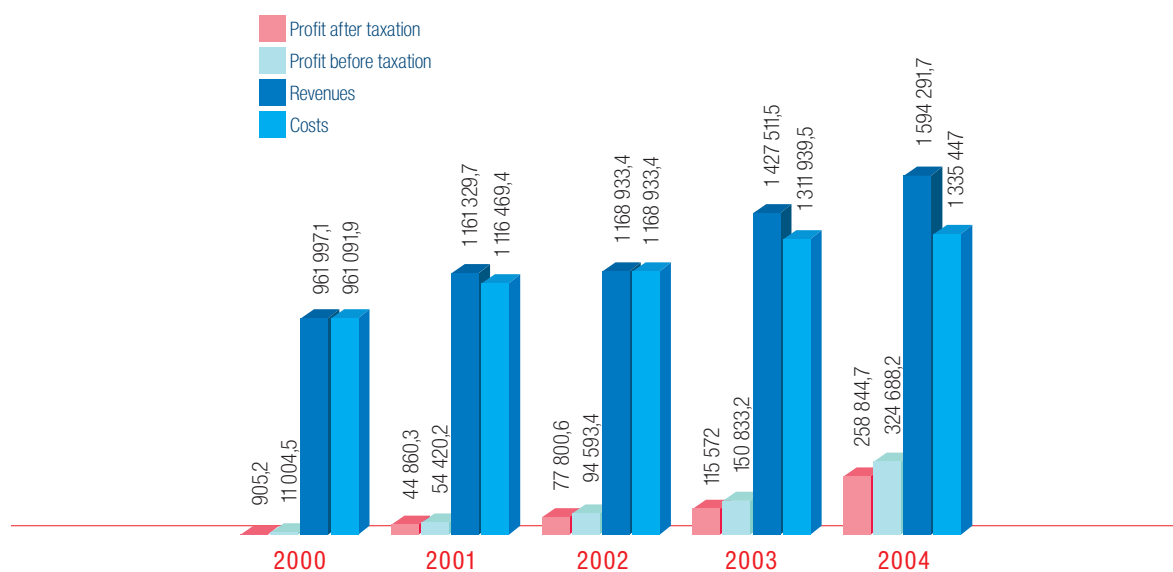
From long-term point of view, objectives of the Company's management were incorporated in Business Plan for 2005 to 2010. This financial plan of the Company lays down main aims of the Company in a time horizon by 2010. It is focused on all activities of the Company in operating and business activities so that it will achieve the required level of air traffic services, aeronautical information service, in case of implementation of CEATS UAC (Central European Air Traffic Services Upper Area Control) project after 2010. It is also aimed on stabilisation of the LPS SR, š. p. within the relevant time horizon with respect to costs and sales management, optimisation of route charge amount and management of its amount on assumption of restructuring of technical, operation and administrative personnel conditions and removal of inequality between loading and performance of employees in relation to wages.

Tasks adopted in the Financial Plan for 2004 were ensuring trend of further growth of effectiveness of the Company's activity and increase of revenues and profit in comparison with the previous year.

Costs and revenues for I. – XII. 2004 and 2003 in thousand SKK

Account	Name	Reality I. – XII. 2004	Reality I. – XII. 2003	Index 04 / 03
50x	Consumed purchase	60 753,8	31 323,4	1,94
51x	Services	164 501,9	178 194,0	0,92
52x	Personal costs	560 246,4	517 313,7	1,08
53x	Taxes and fees	1 543,0	1 473,7	1,05
54x	Other operating costs	109 124,9	120 179,0	0,91
551	Depreciation and amortisation	193 260,3	285 908,3	0,68
55x	Creating of legal reserves and provisions	72 336,4	52 851,7	1,37
56x	Financial costs	107 490,8	85 387,8	1,26
574	Creating of reserves		0,0	
58x	Extraordinary costs	346,0	4 046,7	0,09
59x	Income taxes and transfer accounts	65 843,5	35 261,2	1,87
	Total costs	1 335 447,0	1 311 939,5	1,02
60x	Revenues from own services and goods	1 457 477,4	1 320 746,9	1,10
601	Revenues from own goods – AIM publications	552,1	519,8	1,06
602	Revenues from services	1 456 889,3	1 320 164,7	1,10
	Total approach charges	104 486,2	58 899,5	1,77
	Total en-route charges	1 340 523,6	1 249 773,5	1,07
	Total training flights	2 191,2	2 345,2	0,93
	Other revenues from services	9 273,6	8 801,2	1,05
	Other revenues	414,7	345,3	1,20
604	Revenues from merchandise	36,0	62,4	0,58
613	Changes in merchandise	560,4	582,8	0,96
621	Material and goods capitalisation	135,4	209,0	0,65
64x	Other operating revenues	31 480,5	5 248,4	6,00
65x	Clearing of reserves and provisions	52 778,0	62 209,6	0,85
66x	Financial revenues	51 559,8	38 499,2	1,34
68x	Extraordinary revenues	300,2	15,6	19,24
	Total revenues	1 594 291,7	1 427 511,5	1,12
	Profit before taxation	324 688,2	150 833,2	2,15
	Profit after taxation	258 844,7	115 572,0	2,2397

Comparison of indicator's evolution in '000 SKK (for years 2000 – 2004)



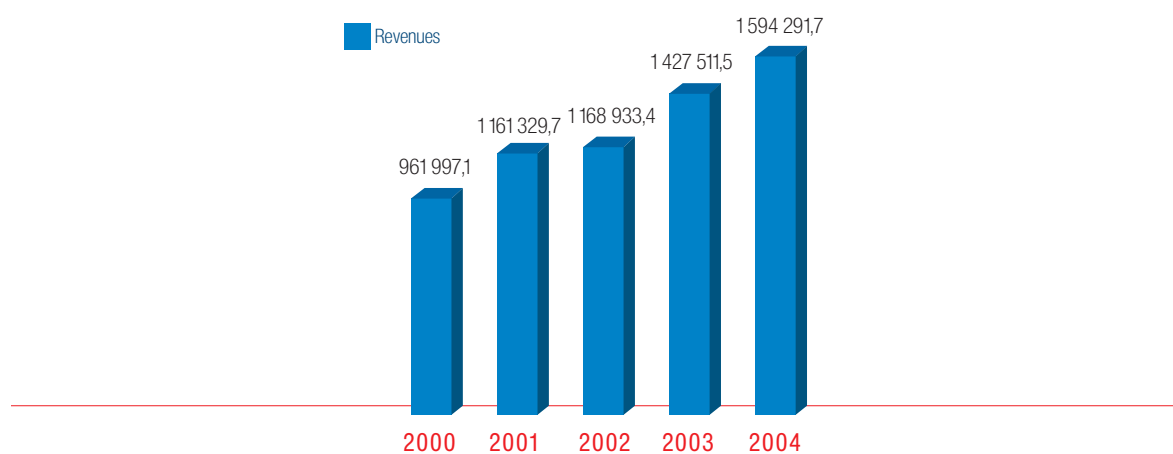
Revenues

During 2004 the LPS SR, š. p. gained revenues in the amount of TSKK 1 594 291.7. Revenues increased in 2004 for TSKK 166 780.2 in total in comparison with the fact 2003, i.e. growth index of 1.12.

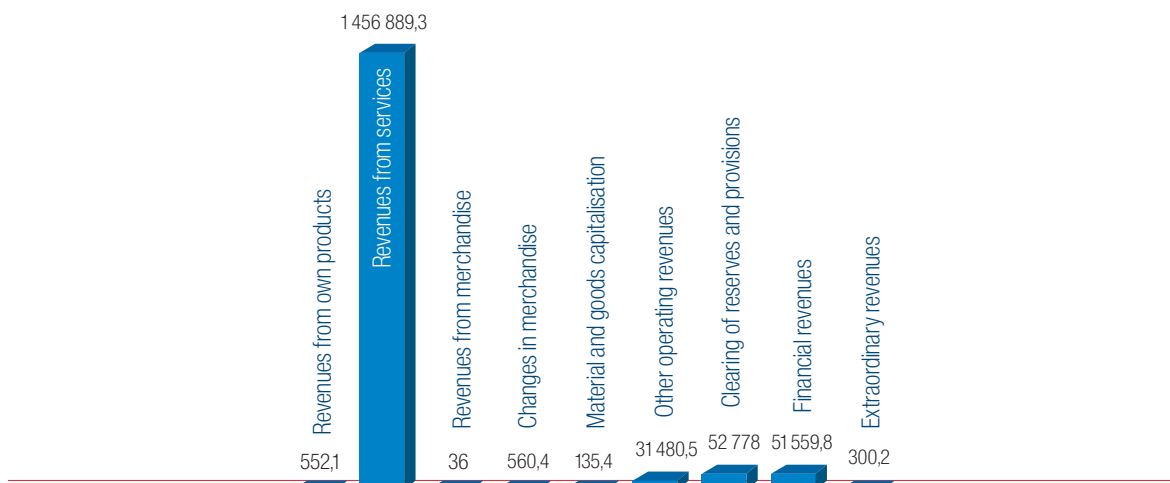
The growth of total revenues in comparison with the 2003 was achieved mainly due to growth of "Revenues from sale of services" and of that "Revenues from route charges", which were growing with 1.07 index. Higher level of revenues in comparison with 2003 was influenced by higher number of charged transit units in 2004, being for 99 128 units more, i.e. increase for TSKK 90 750.

Increase of revenues in comparison with 2003 occurred also in other items except for the item "Revenues from sale of own products and goods".

Evolution of revenues in '000 SKK (for years 2000 – 2004)



Revenues composition in '000 SKK (for year 2004)



Costs

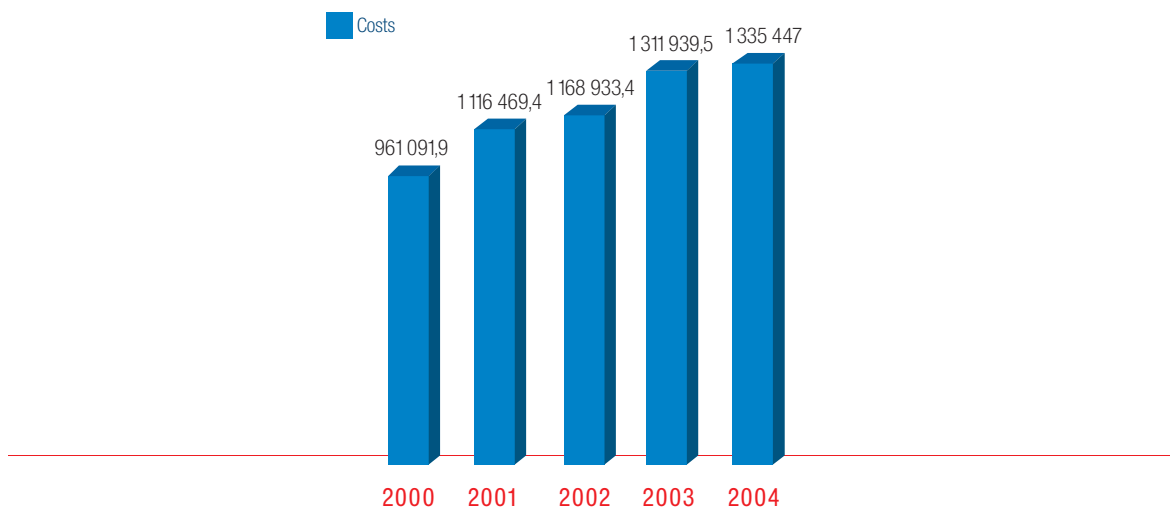
For the 2004 period the LPS SR, š. p. had costs in the amount of TSKK 1 335 447.0.

In comparison with fact 2003 costs were for TSKK 23 507.5 higher in 2004, what represents growth with 1.02 index. If we compare percentile growth of revenue and cost indicators, the growth of costs did not achieve the level of revenues growth, what unfavourably affected creation of business result of the LPS SR, š. p.

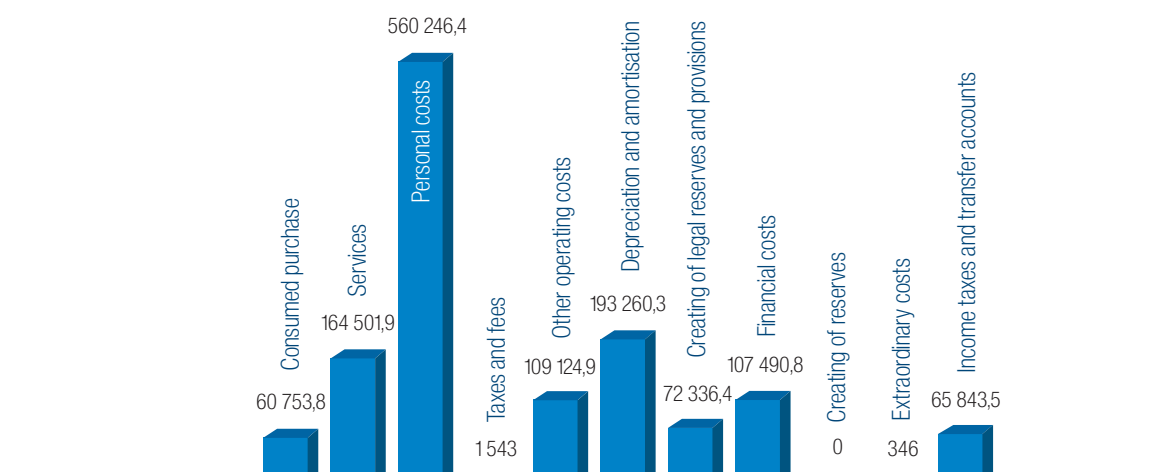
More considerable increase in comparison with 2003 was recorded in the following items:

- consumed purchases caused by replacement of technology components,
- increase of staff costs with – 1.08 growth index caused by application of seniority of employees, changes in classification of employees and result of collective negotiation between the Company CEO and employees after consideration of currency inflation in their wages,
- creation of legal reserves and adjusting items – growth index of 1.37,
- financial costs with growth index of 1.26 caused by increase of exchange rate differences,
- income taxes and transfer accounts with growth index of 1.87.

Evolution of costs in '000 SKK (for years 2000 – 2004)



Costs composition in '000 SKK (for year 2004)



Business Result

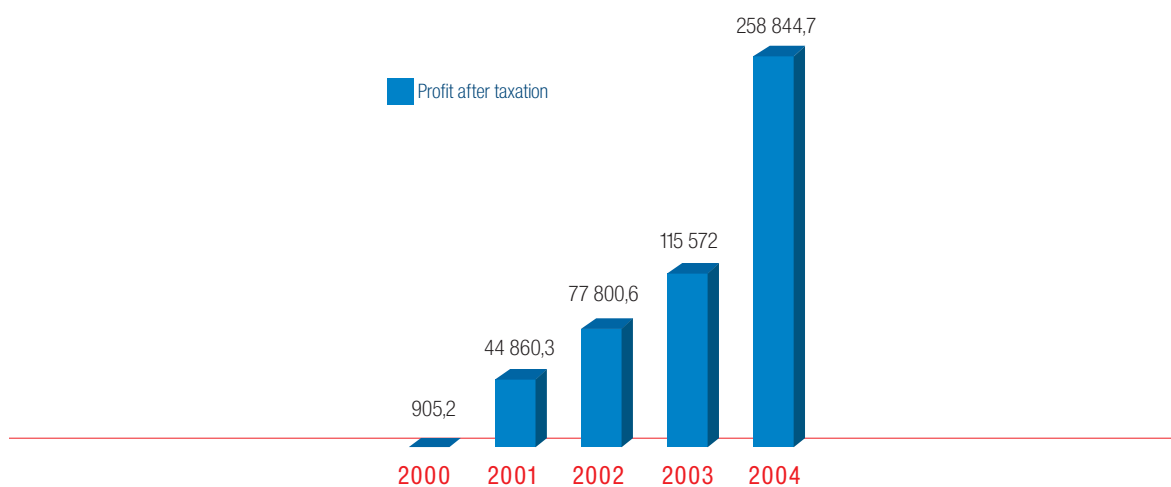
The state-owned company LPS SR recorded in 2004 business result before taxation in the amount of TSKK 324 688.2. After payment of income tax the Company gained positive business result – profit after taxation in the amount of TSKK 258 844.7.

The positive business result – profit after taxation was for TSKK 143 272.7 higher than in year 2003, while in fact, in 2003, the profit after taxation was in the amount of TSKK 115 572.0, what is an increase for 123.97 %.

Progressive growth of revenues, such as increase of costs, has favourable impact on creation of the improved business result for 2004 in comparison with 2003. In 2003 costs had 91.90% share on total revenues and only 83.80% in 2004, what is a decrease of costs for 8.10 %.

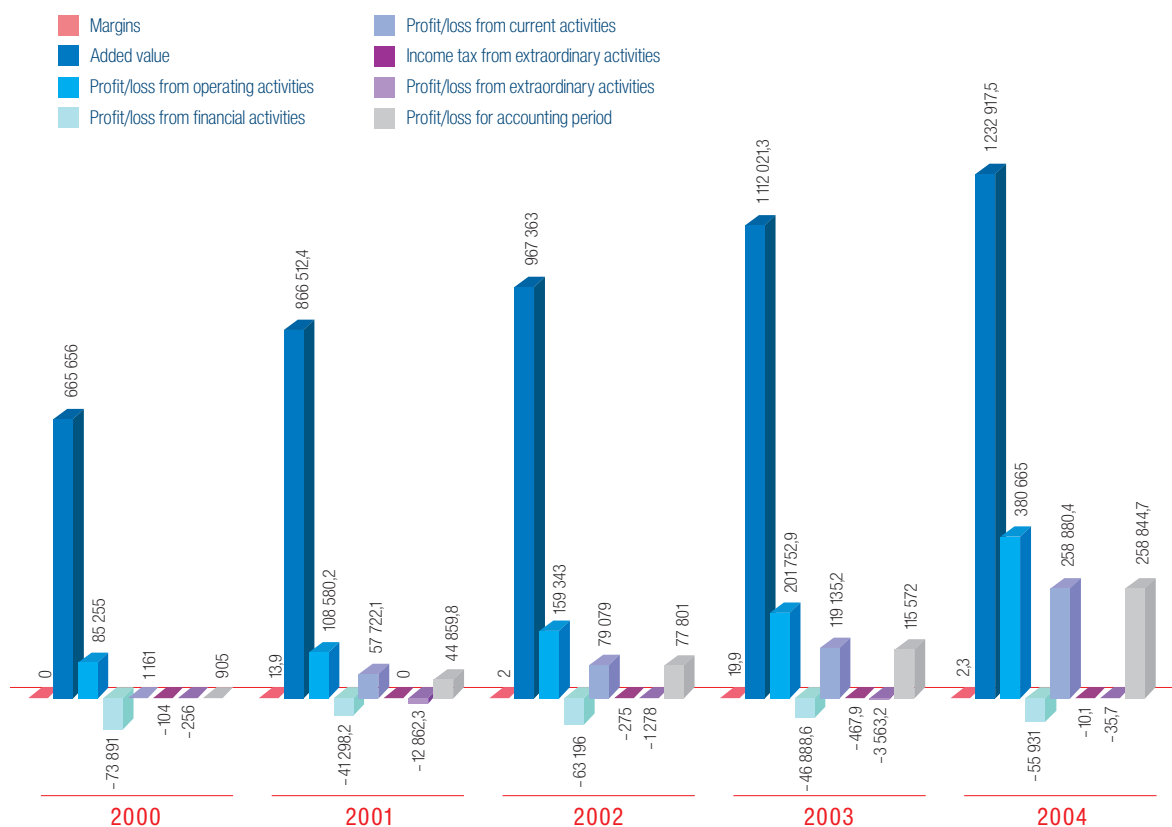
The higher positive business result – profit after taxation created an assumption for growth of all financial indicators of the Company, which witness to reliability of the LPS SR, š. p.

Comparison of profit after taxation in '000 SKK (for years 2000 – 2004)



Income for invoiced route charges had decisive impact on profit creation and its growth in 2004, same as in all the previous years. They increase for TSKK 90 750.1 in 2004 on 2003 represents basis for profit creation. At the same time, however, the growth of costs in 2004 was slower than in previous years. In previous periods, since change of the Company's legal form from allowance organisation to the state-owned company in 2000 until 2004, the trend of costs development in comparison with previous period was always ranging at level of 3% up to 16%. In 2004, in comparison with 2003, the trend was for 2% higher. This fact also considerably contributed to the positive business result in 2004.

Profit sources comparison in '000 SKK (for years 2000 – 2004)



Profit and loss account for years 2000 – 2004 – short version

TEXT	2000	2001	2002	2003	2004
Margin	0	14	2	20	2
Added value	665 656	866 512	967 363	1 112 021	1 232 918
Profit/loss from operating activities	85 255	108 580	159 343	201 753	380 665
Profit/loss from financial activities	-73 891	-41 298	-63 196	-46 889	-55 931
Profit/loss from current activities	1 161	57 722	79 079	119 135	258 880
Income tax from extraordinary activities	-104	0	-275	-468	-10
Profit/loss from extraordinary activities	-256	-12 862	-1 278	-3 563	-36
Profit/loss for accounting period	905	44 860	77 801	115 572	258 845

Added Value

Production represented by "Revenues for sale of services" has decisive influence on creation of added value in case of the LPS SR, š. p. Other conditions, which influence its creation, are drawing of semi-consumption that consists of costs on consumed purchases and services and shortages and losses of stocks in the amount before received damages from insurance companies.

In 2004, if we use the following valid formula: added value = production - (semi-consumption + shortages and losses of stocks), the added value is TSKK 1 232 918. In comparison with 2003 this is an increase for 10.87 % caused by growth of revenues from sale of own products and services depending on sales for transits and by relatively slower growth of share of costs from revenues in comparison with 2003.

Fulfilment of Credit Conditions of the EIB and Debt Repayment

As at 31 December 2004 the EIB transferred to the LPS SR, š. p. account all funds from the credit in order to finance the Project of Air Traffic Services in compliance with the Financial Contract concluded between the European Investment Bank, the Slovak Republic and the LPS SR, š. p. The LPS SR, š. p. was fulfilling conditions connected with repayment of the credit continuously in compliance with instalment schedule.

In 2004 repayment of the long-term credit from the EIB by the LPS SR, š. p. continued. Ninth instalment of principal amounting TSKK 38 502.0 was paid in February and tenth instalment of the credit amounting TSKK 38 324.1 was paid in August in compliance with the approved instalment schedule. Within the period under review also instalments of interests from the credit in the total amount of TSKK 8 491.9 were paid in February and in the total amount of TSKK 7 398.1 in August. After payment of the credit instalment the credit balance was translated by using current exchange rate to TSKK 217 628.3 as at 31 December 2004.

In compliance with Contract on Assumption of Rights and Obligations, the Ministry of Transport, Posts and Telecommunications of the Slovak Republic has sent an updated instalment schedule of the credit and interests from the credit for 2005. As at the date of maturity of the instalment, the LPS SR, š. p. had, at its deposit account, funds equal at least to the next instalment. The LPS SR, š. p. was elaborating for the Ministry of Transport, Posts and Telecommunications of the Slovak Republic surveys on current state of credits guaranteed by the state.

All terms and conditions under the Financial Contract concluded between the European Investment Bank, the Slovak Republic and the LPS SR, š. p., as well as under the Contract on Assumption of Rights and Obligations concluded between the Ministry of Finance of the Slovak Republic and the Ministry of Transport, Posts and Telecommunications of the Slovak Republic of 28 April 1995 were fulfilled by the LPS SR, š. p. duly and on time.

Financial Ratio Indicators

The LPS SR, š. p. is using financial indicators for complex assessing of the company's economic standing and development. Financial indicators represent a financial value in Slovak Crowns and they are monitored in the Company's books of accounts. They represent a basis for calculation of other derived qualitative indicators.

For assessment of the Company's standing and development in 2004 and on the basis of founder's requirements (the Ministry of Transport, Posts and Telecommunications of the Slovak Republic) liquidity and profit indicators were continuously evaluated in order to monitor the Company's economic standing development.

Liquidity

Liquidity indicators represent ability to pay – solvency of the Company. They express such composition of sources that enables smooth payments depending on how fast the entity is able to realise – transform material value and securities to moneys and it is expressed as follows:

- a) ratio of financial assets to short-term foreign funds, for 2004 this indicator in the LPS SR, š. p. is 2.83 – 1st level liquidity – immediate liquidity, while the required value is 0.20 and optimum value is 0.2 up to 0.5;
- b) ratio of sum of financial assets and short-term receivables to short-term funds, for 2004 this indicator in the LPS SR, š. p. is 3.99 – 2nd level liquidity – current liquidity, while the required value is 1.50 and optimum value is 1.0 up to 1.5;
- c) ratio of current assets to short-term foreign funds, for 2004 this indicator in the LPS SR, š. p. is 4.23 – 3rd level liquidity – total liquidity, while the required value is 2.0 and optimum value is 0.2 up to 0.5.

Profit Indicators

Profit indicator is a ratio of business result to sales, assets, equity or equity capital.

- a) Return on sales – represents appreciation of the company's activity and it is expressed as a percentile ratio of business result for accounting period to sales excluding effect of revenues. Its value as at the end of 2004 is 18.76 % in the LPS SR, š. p..
- b) Return on assets – represents appreciation of investments in capital and it is expressed as a percentile ratio of business result after taxation for accounting period to assets. Its value as at the end of 2004 is 12.56 % in the LPS SR, š. p.

- c) Return on equity – represents appreciation of investments in capital same as the return on assets and it is expressed as a ratio of business result for accounting period to equity. Its value as at the end of 2004 is 16.05 % in the LPS SR, §. p.
- d) Return on equity capital – represents appreciation of investments in capital same as the return on assets and it is expressed as a ratio of business result for accounting period to equity capital. Its value as at the end of 2004 is 22.26 % in the LPS SR, §. p.

Investment Plan and Capital Expenditures

The Company's Supervisory Board has approved an Investment Plan in the amount of TSKK 369 673.0 for the year 2004. Of that TSKK 306 789.7 were spent from January to December 2004, while TSKK 229 963.6 for acquisition of long-term tangible and intangible assets and TSKK 76 826.1 for instalments of the credit from the EIB.

37 new investment projects in total were started in 2004. Remaining unrealised requirements were not recommended by the Investment Committee and, after assessment by the procuring entity, they were, on the basis of written requests, cancelled or transferred to be realised in the following years. Another 45 projects realised by the Finance Department were from previous years.

Capital Expenditures in TSKK	2004	2003
Sources – Investment Plan	332 751	320 447
– own sources	332 751	320 447
Use of own funds	306 790	251 258
of that:		
– long-term tangible assets	228 247	163 582
– long-term intangible assets	1 717	6 709
– lands	0,0	
– instalments of the EIB credit	76 826	80 967



Outlook 2005

Development Strategy of the Company is based on management plans approved in the Business Plan for 2005 to 2010. Application of these plans is updated in annual financial plans and specified in single items of Financial Plan of Costs and Revenues.

Development Strategy of the LPS SR, š. p. for 2005 was discussed by the Supervisory Board on 24 May 2005 in compliance with Act on State-Owned Company No. 111/1990 Coll., Article 19, Para. 6. In compliance with Article 19, Para. 6 the Strategy contains the following:

Plan of Revenues and Costs

The Financial Plan of Revenues and Costs for 2005 is compiled on the basis of expected costs and revenues of the LPS SR, š. p., which will arise during insuring of air traffic in the airspace of the Slovak Republic.

Total costs were increased for 2.0% in average in comparison with the Financial Plan for 2004 (TSKK 1 224 108.4), i.e. total costs are in the amount of TSKK 1 248 412.4 and this is an increase for TSKK 24 304 in comparison with budget for 2004.

Plan of Costs for 2005 expects the following development in comparison with 2004:

The Plan of Revenues for 2005 expects increase of revenues for TSKK 74 944.7 in total, i.e. an increase for 5.9% in comparison with the Plan for 2004.

Total revenues are planned in the amount of TSKK 1 338 721.7. Incomes from en-route activity will represent a decisive part of revenues of the LPS SR, š. p. and they will be in the total amount of TSKK 1 200 600, what is approximately 90 % of all revenues.

Revenues from sale of goods – Plan for 2005 expects TSKK 40.0, what is comparable with the Plan for 2004.

Other revenues from economic activity – the Plan for 2005 is TSKK 28 601.7, what is an increase for TSKK 27 081.7 on the Plan for 2004. The high increase is caused by the fact that Contract on Provision of Services, Technical Equipment and Energy Supply concluded between the LPS SR, š. p. and the Ministry of Defence of the Slovak Republic will enter into force.

Financial revenues – the Plan for 2005 is TSKK 15 000.0, i.e. a decrease for TSKK 3 000.0 in comparison with the Plan 2004. There is expected decrease in item exchange rate profits.

All costs expected in the year 2005 on operation activity, costs on administration, trainings, AIM services and METEO services were included in calculation of route charge for the year, while the expected density of flight traffic is 668.8 thousand charged transit units in 2005.

For 2005 the planned route charge per unit is in the amount of EUR 39.52 EUR, what is a decrease for EUR 15.37 in comparison with the Plan 2004 mainly due to application of "adjustment mechanism" in compliance with " Principles for Establishing the Cost-Base for Route Facility Charges and the Calculation of the Unit Rates – EUROCONTROL DOC 04.60 01".



Audit Report

Auditor's Opinion on audit of regular financial statement compiled as at 31 December 2004 by a member of the Supervisory Board of the state-owned company Letové prevádzkové služby Slovenskej republiky, M. R. Štefánik Airport, 823 07 Bratislava

I have audited the accompanying regular financial statements of the state-owned company Letové prevádzkové služby SR, Bratislava, which comprise of the Balance Sheet compiled as at 31 December 2004, related Profit and Loss Statement and notes to the relevant date. The audit of financial statements was conducted on the basis of commission and approval of the Company's management.

Keeping of books of accounts in a complete, provable and correct manner and compilation of these financial statements in order to provide true and reliable information about assets and liabilities, business result and about financial standing of the Company is of the responsibility of the Company's management. According to valid standards on auditing my responsibility is to express an opinion on these financial statements based on the audit.

I conducted the audit of the financial statements in compliance with Act No. 73/1992 Coll. on Auditors and Slovak Chamber of Auditors and in compliance with International Standards on Auditing (ISA) according to which I shall conduct the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatements. The audit includes examining of evidence supporting the amounts and disclosures in the financial statements. The audit also includes assessing the accounting principles, principles of pricing and of inputs used in preparing the financial statements, assessing correctness of used accounting principles and significant estimates, as well as evaluating presentation of the overall financial statement, financial standing and ongoing business of the unit of accounts.

On the basis of results of audit procedures applied I did not find any irregularities. Financial records of the Company were in compliance with valid Act on Accounting, Principles of Accounting and related legal regulations in all material aspects.

All costs and revenues which are connected with the relevant financial period are included in the recorded business result. Value of assets and liabilities was also approved on the basis of performed physical stocktaking and document controls, while no differences of recorded figures were detected.

During the audit of the financial statement I have obtained assurance that the audit has provided me with objective basis for expression of the following opinion.

In my opinion the annual financial statements compiled by the state-owned company Letové prevádzkové služby SR present fairly, in all its material aspects, the assets and financial standing of the Company as at 31 December 2004 and business result for the relevant year and it is compiled in compliance with Act No. 431/2002 Coll. on Accounting as amended and in compliance with Accounting Procedures valid for business entities keeping double-entry records in 2004.

In Bratislava, 10 May 2005



Ing. Jana Tomšíková
Auditor SKAU Licence No. 454

Auditor's reference report

Intended for Annual Report 2004

of the state-owned company Letové prevádzkové služby SR, š. p., M. R. Štefánik Airport, Bratislava

We have audited financial statements of the state-owned company Letové prevádzkové služby SR, š. p. with registered office in Bratislava for the year ended 31 December 2004. We have conducted the audit in compliance with International Standards on Auditing. The financial statements including the granted Auditor's Opinion on results of financial statement audit as at 10 May 2005 are a part of the Annual Report 2004.

We have examined accounting information mentioned in the Company's Annual Report, with the exception of future financial information. We have not detected any facts whatsoever, which could cast doubts whether the accounting information contained in the attached Annual Report is, in all material aspects, in compliance with the financial statements on which they are based.

In our opinion the accompanying financial statements – Balance Sheet, Profit and Loss Statement and Notes are consistent, in all material aspects, with statements on which we have based and in relation to which we have expressed our opinion without objections.

In order to acquire objective information regarding the company's financial standing and its business result for the relevant period and regarding the scope of our audit, it is necessary to read the Annual Report along with the financial statements from which accounting information contained in the Annual Report have been derived and along with the Auditor's Report to the relevant financial statements.

In Bratislava, date: 27 July 2005



Ing. Jana Tomšíková
Statutory Auditor
SKAU licence No. 454



Balance Sheet

Balance Sheet as at 31 December 2004 in TSKK

ASSETS

Total assets	2 060 544
Fixed assets	995 901
Long-term tangible assets sum	984 169
Long-term financial assets sum	0
Current assets	987 365
Stock sum	54 947
Long-term receivables sum	0
Short-term receivables sum	270 440
Financial accounts sum	661 978
Accrual and deferral	77 278

LIABILITIES

Total equity and liabilities	2 060 544
Equity	1 612 586
Equity capital	1 163 083
Capital funds sum	0
Funds from profit sum	202 104
Business result from previous years	-11 446
Business result for accounting period	258 845
Payables	443 500
Reserves	19 209
Long-term payables	45 596
Short-term payables sum	161 066
Bank credits and assistance sum	217 629
Accrual and deferral sum	4 458



Profit and Loss Statement

Profit and Loss Statement as at 31 December 2004 in TSKK

Revenues from sale of goods (604)	36
Costs on good sold (504)	34
Business margin – line 01-02	2
Production – line 05 + 06 + 07	1 458 137
Revenues from sale of own products and services	1 457 441
Change in state of internal stock of own production	561
Capitalisation	135
Production consumption	225 222
Consumption of material, energy and other non-supply items	60 720
Services	164 502
Added value	1 232 917
Staff costs	560 247
Wage costs	443 359
Board and association member compensations	2 476
Costs on social security	92 066
Social costs	22 346
Taxes and fees	1 543
Depreciations of long-term intangible assets and amortization of long-term tangible assets	193 260
Revenues from sale of long-term assets and material	19
Residual price of long-term assets and material sold	180
Use and cancellation of reserve in revenues from economic activity and accounting for of origin of complex deferred costs	15 743
Creation of reserves for economic activity and settlement of complex deferred costs	19 209
Settlement and cancellation of adjusting items in revenues from economic activity	37 035
Creation of adjusting items in costs on economic activity	53 127
Other revenues from economic activity	31 461
Other costs on economic activity	108 945
Transfer of revenues from economic activity(-)	
Transfer of costs on economic activity (-)	
Business result from economic activity	380 664
Revenues from sale of securities and participations	
Costs on revaluation of securities and costs on derivative operations	
Revenue interests	15 538
Cost interests	14 127
Exchange rate profits	35 925
Exchange rate losses	62 196
Other revenues from financial activity	97
Other costs on financial activity	31 168
Use and cancellation of reserve in revenues from financial activity	0
Creation of reserves for financial activity	
Business result from financial activity	-55 931
Income tax from ordinary activity	65 853
– due	67 435
– deferred	-1 582
Business result from ordinary activity	258 880
Extraordinary revenues	300
Extraordinary costs	346
Income tax from extraordinary activity	-10
– due	-10
– deferred	0
Business result from extraordinary activity	-36
Transfer of participations in business result to partners	
Business result for accounting period (+/-)	258 844

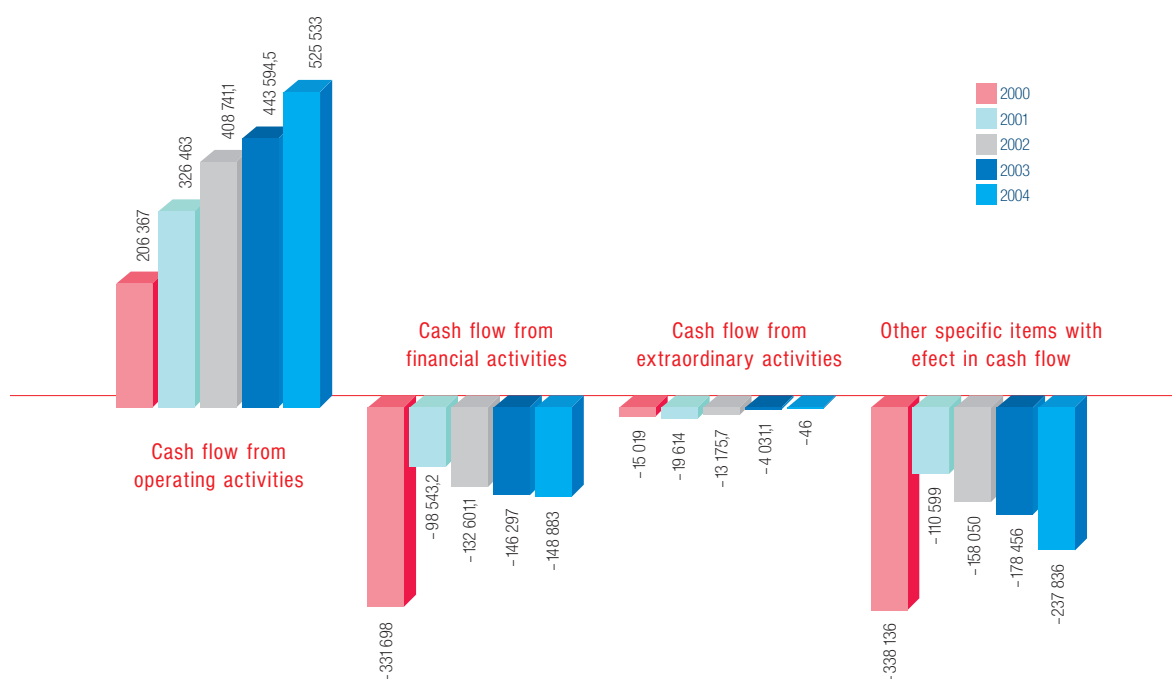


Cash Flow Statement

Cash Flow Statement as at 31 December 2004 in TSKK

State of funds as at 1 January 2004	523 210
Cash flow from operating activity	525 533
Revenues from sale of goods	36
Costs on goods sold	-34
Revenues from sale of own products and services	1 457 441
Material and energy consumption	-60 720
Services	-164 502
Wage costs	-443 359
Board and association member compensations	-2 477
Costs on social security	-92 065
Social costs	-22 346
Taxes and fees	-1 543
Revenues from sale of long-term assets and material	20
Other revenues from economic activity	31 461
Other costs on economic activity	-108 945
– due	-67 435
– deferred	
Cash flow from financial activity	-148 883
Revenue interests	15 538
Costs on interests	-14 127
Exchange rate profits	35 925
Exchange rate losses	-62 196
Other revenues from financial activity	97
Other costs on financial activity	-31 169
Expenditures connected with decrease of SF,	-16 123
Expenditures connected with granting of credits – instalments	-76 829
Cash flow from extraordinary activity	-46
Extraordinary revenues	300
Extraordinary costs	-346
Cash flow connected with income tax from extraordinary activity	0
– due	
– deferred	0
Cash flow connected with acquisition of investments	-229 961
Expenditures on acquisition of long-term tangible and intangible assets	-229 961
Other items affecting cash flow	-7 875
State of funds as at 31 December 2004	661 978

Cash flow evolution in '000 SKK (for years 2000 – 2004)



Report of Independent Auditor

(Audit was conducted in compliance with International Standards on Auditing)

In compliance with the Financial Agreement concluded between the European Investment Bank, the Slovak Republic and the LPS SR, š. p., as well as in compliance with the Contract on Assumption of Rights and Obligations ensuing from contract concluded between the Ministry of Finance of the Slovak Republic and the Ministry of Transport, Posts and Telecommunication of the Slovak Republic of 28 April 1995, an audit of the LPS SR, š. p. business was performed for the user of the LPS SR, š. p. in compliance with International Accounting Standards. The Report of Independent Auditor – the company KPMG, spol. s r. o. Bratislava has stated that the financial statements present fairly, in all material aspects, the Company's financial standing as at 31 December 2004, as well as of its business result, equity and cash flows for the year then ended and they are in accordance with International Financial Reporting Standards.

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 2004 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 present fairly, in all material respects, the financial position of Letové prevádzkové služby Slovenskej republiky, š.p. as at 31 December 2004 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.

31 May 2005
Bratislava, Slovak Republic

KPMG Slovensko, s.r.o.



Balance sheet for the year ended 31 December 2004

(Expressed in thousands of Slovak Crowns)

ASSETS

Non-current assets	Note	2004	2003
Property, plant and equipment	2	956 267	837 363
Intangible assets	3	8 749	9 819
Deferred tax asset	4	25 972	29 469
Total non-current assets		990 988	876 651

Current assets	Note	2004	2003
Inventories	5	20 678	19 115
Trade and other receivables	6	252 660	230 449
Cash and cash equivalents		661 979	523 210
Total current assets		935 317	772 774
Total assets		1 926 305	1 649 425

EQUITY AND LIABILITIES

Capital and reserves	Note	2004	2003
Issued capital		1 163 083	1 163 083
Legal reserve and other capital funds		202 103	97 968
Retained earnings / (Accumulated losses)		96 477	(108 635)
Total capital and reserves	7	1 461 663	1 152 416

Non-current liabilities	Note	2004	2003
Interest bearing loans and borrowings	8	145 085	232 189
Other non-current liabilities		425	902
Provision for retirement benefits	9	44 467	36 244
Total non-current liabilities		189 977	269 335

Current liabilities	Note	2004	2003
Trade and other payables	10	160 427	133 832
Interest bearing loans and borrowings	8	72 543	77 397
Income taxes payable		41 695	16 445
Total current liabilities		274 665	227 674
Total equity and liabilities		1 926 305	1 649 425

The Balance Sheet is to be read in conjunction with the notes forming part of the financial statements set out on pages 5 to 14.



Ing. Roman Bíro
Chief Executive Officer

Income statement for the year ended 31 December 2004

(Expressed in thousands of Slovak Crowns)

Revenues	Note	2004	2003
Air traffic control services		1 456 889	1 320 165
Other operating income		32 069	5 831
Total revenues		1 488 958	1 325 996
Personnel expenses	11	(585 355)	(570 725)
Depreciation and amortization	2, 3	(146 814)	(153 790)
Other operating expenses	12	(359 880)	(355 613)
Total operating expenses		(1 092 049)	(1 080 128)
Profit from operations		396 909	245 868
Net financing costs	13	(16 738)	(12 610)
Profit before tax		380 171	233 258
Income tax expense	14	(70 924)	(3 980)
Net profit for the year		309 247	229 278

The Income Statement is to be read in conjunction with the notes forming part of the financial statements set out on pages 5 to 14.

Statement of Changes in Equity for the year ended 31 December 2004

(Expressed in thousands of Slovak Crowns)

	Issued capital	Legal reserve fund	Other capital funds	Retained earnings/ (Acc. losses)	Total
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
At 1 January 2004	1 163 083	18 352	79 616	(108 635)	1 152 416
Transfer to fund of expansion	—	—	107 626	(107 626)	—
Transfer to legal reserve fund	—	5 778	—	(5 778)	—
Donations	—	—	(9 269)	9 269	—
Net profit for the year	—	—	—	309 247	309 247
At 31 December 2004	1 163 083	24 130	177 973	96 477	1 461 663

The Statement of Changes in Equity is to be read in conjunction with the notes forming part of the financial statements set out on pages 5 to 14.



Cash Flow Statement for the year ended 31 December 2004

(Expressed in thousands of Slovak Crowns)

OPERATING ACTIVITIES	2004	2003
Cash receipts from customers	1 357 918	1 330 374
Cash paid to suppliers and employees	(841 054)	(923 736)
Cash generated from operations	516 864	406 638
Income tax paid	(41 695)	(16 580)
Cash flows from operating activities	475 169	390 058
INVESTING ACTIVITIES	2004	2003
Acquisition of property, plant and equipment	(259 269)	(157 038)
Acquisition of intangible assets	(1 716)	(6 785)
Interest received	15 538	15 315
Cash flows used by investing activities	(245 447)	(148 508)
FINANCING ACTIVITIES	2004	2003
Loan repayments	(76 826)	(88 025)
Interest paid	(14 127)	(22 377)
Cash flows used by financing activities	(90 953)	(110 402)
Net increase in cash and cash equivalents	138 769	131 148
Cash and cash equivalents at beginning of year	523 210	392 062
Cash and cash equivalents at end of year	661 979	523 210

The Cash Flow Statement is to be read in conjunction with the notes forming part of the financial statements set out on pages 5 to 14.



Notes to the Statements for the year ended 31 December 2004

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 2005.

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:

Asset	Period
Buildings and infrastructure	12 – 40 years
Plant and equipment	4 – 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 five years (2003: maximum 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

Cost

In thousands of SKK	Land and buildings	Plant and equipment	Assets under construction	Total
At 1 January 2004	522 405	1 662 249	109 605	2 294 259
Additions	2 650	92 514	163 811	258 975
Disposals	(23)	(19 356)	–	(19 379)
At 31 December 2004	525 032	1 735 407	273 416	2 533 855

Accumulated depreciation and impairment losses

At 1 January 2004	132 033	1 324 863	–	1 456 896
Charge for the year	14 130	125 941	–	140 071
Impairment provision to land	–	–	–	–
Disposals	(23)	(19 356)	–	(19 379)
At 31 December 2004	146 140	1 431 448	–	1 577 588

Net book value

At 1 January 2004	390 372	337 386	109 605	837 363
At 31 December 2004	378 892	303 959	273 416	956 267

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.



3. INTANGIBLE ASSETS

In thousands of SKK		Software
Cost		
At 1 January 2004		240 581
Additions		5 745
Disposals		(64)
At 31 December 2004		246 262
Accumulated depreciation		
At 1 January 2004		230 762
Charge for the year		6 815
Disposals		(64)
At 31 December 2004		237 513
Net book value		
At 1 January 2004		9 819
At 31 December 2004		8 749

4. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities as at 31 December 2004 and 2003 are attributable to the items detailed in the table below:

In thousands of SKK	Assets		Liabilities		Net	
	2004	2003	2004	2003	2004	2003
Property, plant and equipment	–	6 019	(12 594)	–	(12 594)	6 019
Inventories	5 729	4 707	–	–	5 729	4 707
Receivables	22 134	17 057	(430)	(3 155)	21 704	13 902
Interest bearing borrowings	–	913	–	(3 146)	–	(2 233)
Provision for employee benefits	8 663	6 886	–	–	8 663	6 886
Payables	2 470	188	–	–	2 470	188
Deferred tax assets / (liabilities)	38 996	35 770	(13 024)	(6 301)	25 972	29 469
Set off of tax	(13 024)	(6 301)	13 024	6 301	–	–
Net deferred tax assets/ (liabilities)	25 972	29 469	–	–	25 972	29 469

The deferred tax assets as at 31 December 2004 have been calculated using a rate of 19 % (2003: 19 %).

5. INVENTORIES

In thousands of SKK	2004	2003
Spare parts and supplies	47 530	41 001
Provision for slow-moving items	(26 852)	(21 886)
	20 678	19 115

6. TRADE AND OTHER RECEIVABLES

In thousands of SKK	2004	2003
Trade accounts receivable	321 231	310 295
Provision for bad and doubtful debt	(97 616)	(89 772)
Advances to suppliers	1 314	3 878
Value added tax receivable	4 642	3 070
Other receivables and prepaid expenses	23 089	2 978
	252 660	230 449

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. In 2003 and 2004 no changes occurred. As at 31 December 2004, the Issued capital was TSKK 1,163,083.

Other capital funds

The Supervisory Board decided on 22 – 23 April 2004 to transfer to the Other capital funds an amount of TSKK 94,793 from the 2003 profit. On 14 December 2004 the Supervisory Board decided to transfer to the other capital funds another TSKK 15 000 from the undistributed 2003 profit. The amount of TSKK 2,167 represented bonuses for members of Supervisory Board and were paid during the year 2004. It also decided on September 2004 to provide financial donations in the amount of TSKK 9,269. As at 31 December 2004, the Other capital funds were TSKK 177,973.

Legal reserve fund

The increase in legal reserve fund in amount of TSKK 5,778 was approved by the Supervisory Board on 22 – 23 April 2004. As at 31 December 2004, the Legal reserve fund was TSKK 24,130. 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

In thousands of SKK	2004	2003
Investment loans from the European Investment Bank	217 628	309 586
Less: current portion	(72 543)	(77 397)
	145 085	232 189

Loans denominated in USD and EUR are repayable in sixteen semi-annual instalments from February 2000. As at 31 December 2004 the outstanding balance of loans denominated in EUR and USD was EUR 5,255,613 (2003: EUR 7,007,483) and USD 481,875 (2003: USD 642,500), respectively.

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

In thousands of SKK	Total	2006	2007
Secured bank loans:			
EUR – fixed from 4.23 % to 7 % p.a.	135 931	67 966	67 965
USD – fixed at 6.35 % p.a.	9 154	4 577	4 577
Total	145 085	72 543	72 542

Loans payable to the European Investment Bank of TSKK 217,628 (2003: TSKK 309,586) are guaranteed by the Government of the Slovak Republic.

9. PROVISION FOR RETIREMENT BENEFITS

In thousands of SKK	2004	2003
Present value of retirement benefits	44 467	36 244

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

In thousands of SKK	2004	2003
Trade accounts payable	21 456	4 771
Salaries, wages and social security payable	46 104	37 721
Employee income taxes	10 292	12 282
Accrued interest on loans and borrowings	4 163	5 928
Social fund (see below)	33 495	43 733
Other payables and accrued expenses	44 917	29 397
	160 427	133 832

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 2004, the Company contributed to the employees' capital life insurance an amount of TSKK 10,558 (2003: TSKK 10,474). In 2004, the Company also contributed from the social fund to the employees' supplementary pension insurance an amount of TSKK 80 (2003: TSKK 270).

11. PERSONNEL EXPENSES

In thousands of SKK	2004	2003
Wages and salaries	458 076	420 355
Legal social insurance	73 249	66 478
Employee benefits	8 223	36 244
Supplementary pension insurance	18 817	17 855
Social fund expense	14 667	12 638
Additional contribution to social fund	—	15 000
Severance payments	7 679	—
Remuneration of Supervisory Board	4 644	2 155
	585 355	570 725

The average number of employees during 2004 was 485 (2003: 495) including 3 directors (2003: 8).

The Company operates a defined contribution plan for supplementary pension insurance for employees. In 2004, the Company contributed TSKK 18,897 (2003: TSKK 18,125), representing 6 % for the air traffic controllers and 3 % for other employees from the gross salaries of employees. An amount of TSKK 18,817 (2003: TSKK 17,855) is recognized in the income statement as expense and an amount of TSKK 80 (2003: TSKK 270) was paid from the social fund.

There was no additional contribution to the social fund in 2004.

12. OTHER OPERATING EXPENSES

In thousands of SKK	2004	2003
EUROCONTROL membership fees	90 461	95 740
Telecommunication costs	33 558	35 186
Insurance	30 697	32 381
Spare parts and supplies	29 629	30 277
Meteorological services	26 500	26 500
Repairs and maintenance	25 631	25 616
Maintenance fees for technical software	26 060	23 069
Travel	17 346	16 355
Rent of premises	14 610	14 030
State air traffic inspection	13 000	13 102
Other services	26 872	29 424
Training	3 977	3 573
Provision for spare parts	4 966	3 230
Provisions and write-offs (write backs) of bad and doubtful debts	(1 723)	2 074
Other operating expenses	18 296	5 056
	359 880	355 613

Membership fees paid to EUROCONTROL decreased in 2004. The contribution is calculated in advance and is based on certain factors such as GDP of the country and number of over flights.

13. NET FINANCING COSTS

In thousands of SKK	2004	2003
Interest income	15 635	15 315
Interest expenses	(14 127)	(19 420)
Net foreign exchange losses	(18 246)	(8 505)
Total financial expenses	(32 373)	(27 925)
Net financial costs	(16 738)	(12 610)

14. RECONCILIATION OF EFFECTIVE TAX RATE

Income taxes have been provided for at a rate of 19 % (2003: 25 %) of taxable income based on Slovak accounting and tax regulations and deferred tax at a rate of 19 % (2003: 19 %). 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:

In thousands of SKK	2004	2004	2003	2003
Profit before tax		380 171		233 258
Income tax using the prevailing corporation tax rate	19 %	72 232	25 %	58 315
Non-deductible expenses	20 %	75 359	3 %	6 586
Non-taxable income	(12 %)	(45 178)	(2 %)	(5 814)
Temporary differences	(8 %)	(31 489)	(24 %)	(55 107)
	19 %	70 924	2 %	3 980

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

In thousands of SKK	Note	2004	2003
Current year tax expense		67 426	33 449
Deferred tax income	4	3 498	(29 469)
Total income tax expense in income statement		70 924	3 980

15. RELATED PARTY TRANSACTIONS

During the year ended 31 December 2004, the Directors of the Company and the Supervisory Board members received wages and salaries amounting to TSKK 18,794 (2003: TSKK 17,499) and TSKK 9,268 (2003: TSKK 8,246), respectively.

16. COMMITMENTS

Capital commitments

As at 31 December 2004, the Company has entered into purchase agreements for property, plant and equipment totalling approximately TSKK 34,000 (2003: TSKK 161,294). The Company purchased in April 2005 land in the amount of TSKK 28,000.

Lease obligations

The Company entered into a five-year lease for office space in 2000. The minimum annual lease payments are TSKK 9,522.

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 Company is showing the following structure of assets and liabilities in foreign currency and Slovak crowns as at 31 December 2004:

Assets

In thousands of SKK	EUR	USD	SKK	Total
Deferred tax asset	–	–	25 972	25 972
Trade and other receivables	205 973	–	46 687	252 660
Cash and cash equivalents	–	–	661 979	661 979
	205 973	–	734 638	940 611

Equity and liabilities

Interest bearing loans and borrowings	203 896	13 732	–	217 628
Other non-current liabilities	–	–	425	425
Trade and other payables	23 397	303	136 727	160 427
Income taxes payable	–	–	41 695	41 695
	227 293	14 035	178 847	420 175

Fair values

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

Acronyms and Abbreviations

ACC	Area Control Centre
AIM	Aeronautical Information Management
AIP	Aeronautical Information Publication
AIS	Aeronautical Information Service
ATC	Air Traffic Control
ATCo	Air Traffic Controller
ATM	Air Traffic Management
ATS	Air Traffic Services
CNS	Communications, navigation and surveillance
EIB	European Investment Bank
EUR	European Currency
EUROCONTROL	European Organisation for the Safety of Air Navigation
ICAO	International Civil Aviation Organization
LPS SR (LPS SR, š. p.)	Air Traffic Services of the Slovak Republic
OD	ATS supervision department
OM	ATM planning and procedures
SAF	Safety
SES	Single European Sky
SF	Social fund
SR	Slovak republic
TSKK	Thousand Slovak crowns
TZL	Infrastructure of ATS
VHF	Very high frequency



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