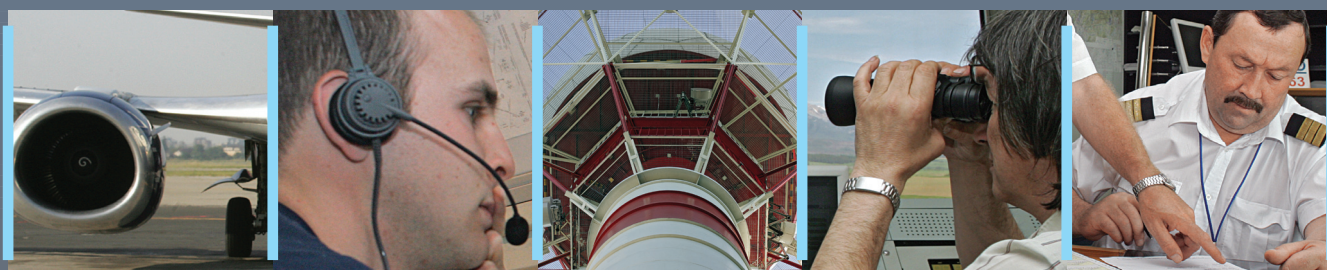


2005



# ANNUAL REPORT



LETOVÉ PREVÁDZKOVÉ SLUŽBY SLOVENSKEJ REPUBLIKY, ŠTÁTNY PODNIK  
AIR NAVIGATION SERVICES PROVIDER

[www.LPS.sk](http://www.LPS.sk)



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## PREFACE BY DIRECTOR GENERAL



Ladies and gentlemen,

The Air Traffic Services of the Slovak Republic state enterprise (Letové prevádzkové služby Slovenskej republiky - LPS SR, š. p. - hereinafter "company") entered the year 2005 as a compact entity able to provide air navigation services of the highest possible standard in compliance with the Act No. 143/1998 Coll. on Civil Aviation (Aviation Act), international standards, recommended practices and other obligations of the Slovak Republic resulting from concluded international agreements, from the membership of the Slovak Republic in international organizations as well as from valid international regulations, procedures, and agreements.

The greatest challenge for the future of the company is the program called Single European Sky. We are about to fulfill it by means of cooperation on the CEATS (Central European Air Traffic Services) project. This approach shall also make us stronger so that we are able to react properly to SESAR (Single European Sky ATM Research) program and so that we become driving force of the further development in ATM (Air Traffic Management).

In 2005, the global growth of the civil air transportation continued, the consequences of which can be seen in the growth of performance of all parties involved in aviation industry, including providers of air navigation services.

This growth resulted into increased number of executed flights and consequently in lowering of charges, as the company lowered en-route unit rate from 54.89 EUR to 39.52 EUR.

Another important fact is the growth of the efficiency of providing air navigation services and decrease of delays despite increase of the total number of movements of 17.4 % (see other chapters).

Despite unfavorable development of prices (especially fuels and energies) and inflation, the company achieved needed efficiency and productivity.

Priority of the company was and remains the guarantee of the safety standards when providing air navigation services. To strengthen the importance of safety, the automatic and independent program of monitoring safety by means of ASMT (Automatic Safety Monitoring Tool) was introduced in operational conditions.

Concerning the Slovak Republic and the company, everything necessary for the perspective development of aviation and navigation services was defined by signing of the CEATS Agreement, which in fact defines also our future steps and defines framework for the cooperation with air navigation services providers in surrounding member states of Eurocontrol.

In the framework of the SES and resulting process of certification of air navigation services providers, the company gradually started to prepare itself for legislative changes related to the provision of air navigation services on airports and their gradual self-financing that will contribute to higher level safety and efficiency of provided services. These steps were concluded by signing the agreements on the level of services between LPS SR, š. p. and airports, which define the extent and quality of required air navigation service, as well as, the way of its financing.

LPS SR, š. p. presents compact human potential of high specialized standards used by highly specific activities, the result of which is the provision of safe and effective services. Nevertheless, we are aware that fragmentation and delays are some of the main restrictions that must be solved in the future.

Results of the activity of this company permanently show increased interest in our services from our business partners, therefore I would like to express cordial thanks to all, who contributed to reach this common goal and good reputation of this company.

A handwritten signature in blue ink, appearing to read 'Roman Bíro'.

Ing. Roman Bíro  
Director General

## REPORT OF THE SUPERVISORY BOARD



The Supervisory Board of Letové prevádzkové služby Slovenskej republiky, štátny podnik at its meeting held on 23 May 2006 based on audit of financial statements conducted by auditor Ing. Jana Tomšíková evaluated the results of economic activity of the enterprise for the year 2005 and stated that the Company's economic activity is in compliance with valid laws and the presented financial statements of the company Letové prevádzkové služby Slovenskej republiky, š. p. expresses truly in all its important connections property and financial situation up to 31 December 2005 and results of its economic activity for the stated year are processed in compliance with the Act No. 431/2002 Coll. On Accounting as amended and Accounting Methods valid for the business subjects accounting in the system of double-entry bookkeeping for the year 2005. The Supervisory Board also stated that planned indicators were met.

The Supervisory Board discussed distribution of business result after taxation and pursuant to § 8 Sec. 4 letter a) of the Act No. 111/1990 Coll. on State Enterprise as amended and in compliance with the Order of the Government of SR No. 175/1993 Coll. on Financial Management of State Enterprises approved the proposed distribution.

The Supervisory Board also discussed Report on the Company's Business for the year 2005 intended for the Company's founder and became aware of it.

**Ing. František Perutka**  
Chairman of the Supervisory Board  
of the Letové prevádzkové služby Slovenskej republiky, state enterprise

## ACTIVITIES OF THE COMPANY IN 2005

### ATM Domain

#### Air Traffic Services

##### En-route services

The ACC unit, including Flight Information Centre (FIC) unit, provides services to all flights within Bratislava flight information region (FIR), i.e. within the area of 49 035 km<sup>2</sup> from the ground up to the flight level FL660 (20 130 m), with the exception of airspace of control zones of six international aerodromes (CTR) and their adjacent terminal control areas (TMA).

In the year 2005, in comparison with the year 2004, the overall increase of en-route air traffic (IFR as well as VFR flights) in the amount of 17.4 % (+48 912 flights) was registered, when the number of flights increased from 280 670 in 2004 to 329 582 in 2005.

The greatest increase was registered in overflights of FIR Bratislava, when 294 177 flights were served, which compared with the year 2004 represents increase of 18.0 %.

The number of international flights with the destination/departure airport in the Slovak Republic was higher of 13.0 %.

Domestic traffic increased as well, when in 2005 the number of flights was 4 282 compared with 3 944 flights in 2004 (+9.0 %).

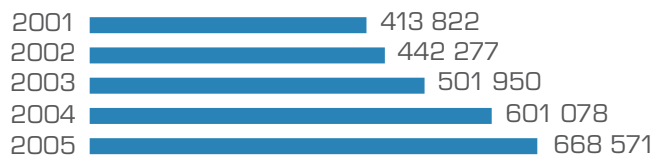
Maximum number of flights per day (1331) has been recorded on 30 of June.

Concerning IFR flights monitored by the central flow management unit (CFMU), the increase in 2005 compared with 2004 was approximately 13 %. Average delay on one flight increased from 0,3 min. to 0,4 min. This increase arised due to implementation of flow management procedures in May and June when the new generation version of the EUROCAT 2000 ATM system has been put in operation. In spite of this increase, the planned increase of capacity of 10% was achieved.

The biggest customers of the en-route navigation services were in 2005 airline companies British Airways with the share of 6.18 %, then Austrian Airlines with the share of 5.93 %, Emirates Int'l. with the share of 4.88 %, Lufthansa with the share of 4.57 % and Malev with the share of 3.80 % of all invoiced en-route charges. From national carriers it was Sky Europe Airlines with the share of 1.49 %.

What concerns the structure of the international operation from the point of view of city pairs, en-route services were in 2005 most often provided to flights from Frankfurt to Budapest (2 543 flights), from München to Budapest (2 439 flights) and from Amsterdam to Budapest (2 252 flights). From domestic lines, the connection Bratislava – Košice dominated.

#### TREND OF INVOICED SERVICE UNITS DURING THE YEARS 2001-2005 ( '000 SKK)



##### Approach and Aerodrome Control Services

Within the framework of approach and aerodrome control services, the increasing trend of traffic was sustained in 2005 and it is assumed that this trend will continue further: 62 686 flights in total were served in 2005 at six international aerodromes and within adjacent control zones (CTR) and terminal control areas (TMA), where the company provides its services. This is an increase of 13 % in comparison with 2004.

##### Bratislava/M. R. Štefánik Airport

30 976 flights (28156 IFR and 2 820 VFR) performed within the frame of aerodrome traffic was served, which represents, in comparison with previous year, the increase of 11 %. The key customers of our services were Sky Europe Airlines, Slovenské Aerolinie, Easy Jet, CSA and Lufthansa. In the course of the year another important carrier started its operation from Bratislava, namely Ryanair; the result of which was increase of scheduled flights from Bratislava (London and Bergamo).

##### Košice Airport

9 772 flights (8 063 IFR and 1 709 VFR) performed within the frame of aerodrome traffic was served, which represents, in comparison with previous year, the increase of 7.3 %. In addition to regular traffic between Košice and Bratislava, scheduled flights from Prague and Vienna (Sky Europe Airlines, Austrian Airlines and CSA) participated in this increase.

##### Poprad-Tatry Airport

2 924 flights (977 IFR and 1 947 VFR) performed within the frame of aerodrome traffic was served, which represents, in comparison with previous year, the increase of 8 %.

##### Sliac Airport

2 355 flights (1 580 IFR and 775 VFR) performed within the frame of aerodrome traffic was served, which represents, in comparison with previous year, the increase of 3.3 %.



#### Piešťany Airport

1 168 flights (759 IFR and 409 VFR) performed within the frame of aerodrome traffic was served, which represents, in comparison with previous year, the decrease of 5.7 %.

#### Žilina Airport

2 178 flights (902 IFR and 1 276 VFR) performed within the frame of aerodrome traffic was served, which represents, in comparison with previous year, the increase of 7.5 %.

Nevertheless, it is to be noted, that in addition to aerodrome traffic flights, other 13 313 flights were provided with the air traffic control service. Those flights were the overflights crossing CTR/TMA and local flights within CTR/TMA of respective aerodromes. The most distinguished contribution to this was made by ATS units at Šliach Airport with 16.3 % (the increase of 23 % in this category of flights compared with 2004) and Poprad-Tatry Airport with 22 % (nearly threefold increase compared with 2004).

In spite of the relatively considerable increase of the air traffic, the capacity of the approach and aerodrome control services in the middle-term horizon is sufficient.

#### **Total Number of Movements in FIR Bratislava for I-XII 2004 and 2005**

FIR	Internacional Traffic				Domestic Traffic		Overflights	
	Departures		Arrivals		Movements		2004	2005
	2004	2005	2004	2005	2004	2005		
I.	782	977	791	985	382	412	14 181	17 167
II.	773	986	771	985	438	490	13 652	15 545
III.	933	1 171	932	1 175	740	714	15 309	18 553
IV.	1 009	1 270	1 011	1 271	765	858	17 259	19 853
V.	1 259	1 396	1 271	1 405	813	911	23 046	25 827
VI.	1 519	1 638	1 525	1 631	1 058	969	25 106	28 454
VII.	1 596	1 712	1 595	1 731	850	966	28 772	31 814
VIII.	1 599	1 730	1 591	1 716	828	951	28 289	30 668
IX.	1 482	1 650	1 487	1 649	865	1 068	25 984	28 333
X.	1 244	1 374	1 235	1 377	684	962	24 094	26 593
XI.	1 044	1 213	1 049	1 215	626	445	17 677	18 982
XII.	989	1 144	983	1 142	440	349	16 395	18 253
I. - XII. 2005		16 261		16 282		9 095		280 042
I. - XII. 2004	14 229		14 241		8 489		249 764	
Index 05/04	1,14		1,14		1,07		1,12	

Month	Index			Daily average			Top Day		
	2004	2005	05/04	2004	2005	Index	2004	2005	Index
I.	16 136	19 541	1,21	520,5	630,4	1,21	596	717	1,20
II.	15 634	18 006	1,15	539,1	643,1	1,19	631	715	1,13
III.	17 914	21 613	1,21	577,9	697,2	1,21	663	812	1,22
IV.	20 044	23 252	1,16	668,1	775,1	1,16	825	915	1,11
V.	26 389	29 539	1,12	851,3	952,9	1,12	943	1 081	1,15
VI.	29 208	32 692	1,12	973,6	1 089,7	1,12	1 151	1 282	1,11
VII.	32 813	36 223	1,10	1 058,5	1 168,5	1,10	1 152	1 267	1,10
VIII.	32 307	35 065	1,09	1 042,2	1 131,1	1,09	1 133	1 238	1,09
IX.	29 818	32 700	1,10	993,9	1 054,8	1,06	1 148	1 195	1,04
X.	27 257	30 306	1,11	909,0	1 010,2	1,11	1 023	1 150	1,12
XI.	20 396	21 855	1,07	680,0	728,5	1,07	756	823	1,09
XII.	18 807	20 888	1,11	627,0	673,8	1,07	724	789	1,09
I-XII. 2005		321 680			657,3			1 282	
I-XII. 2004	286 723			546,0			1 152		
index 05/04	1,12					1,20			1,1

#### **Safety in ATM**

The LPS SR, š. p. provides services mainly with focus on safety, effectiveness, and organized 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 in the sense of requirements of Eurocontrol for the regulation of safety ESARR 3 and determined the safety as the highest priority against commercial, operational, environmental and social impacts.

In 2005 LPS SR, š. p. intensively worked together with Letecký úrad Slovenskej Republiky on the implementation of the requirements ESIMS (ESARR Implementation Monitoring and Support), on audit of fulfilling Strategic Safety Action Plan and on preparation of the certificate of the enterprise in the year 2006 pursuant to the Regulation of the Commission (ES) No. 2096/2005, which defines common requirements for the provision of air navigation services.

The system of reporting incidents in the air traffic considerably improved, which, together with raising public awareness, was manifested on the increased number of reported incidents. In 2005 the number of reported extraordinary air incidents in the

Slovak Republic was 214, which in comparison with 108 incidents in 2004 represents increase of 98%.

Positive trend was recorded in comparison with the year 2004, when LPS SR, š. p. directly participated in one serious incident and indirectly in 1 incident, while in 2005 it indirectly participated only in one incident.

12 incidents were handled by the internal specialized investigation, besides there were investigated also other incidents without important operational influence on the provision of ATS with the aim of finding out, if LPS SR, š. p. participated on its origination. In other cases it was clear from the announcement of the incident that the company did not participate in its origination and could not prevent them (flights without connections on route of flight plan, technical failures of airplanes).

On the basis of specialized investigation of the incidents in the air traffic, 27 recommendations for the increase of the level of safety were issued.

## **CNS Area**

### **Technical Provisions of LPS**

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

Technical provision of air traffic services is understood as execution of specialized activities focused on constant, reliable and effective provision of operation of technical devices determined to gain, generate, transfer, and process information supporting provision, or directly used for the provision of air traffic services, or output information, which are used by the crews in the airplanes, including provision of supporting technical means and energies.

The requirements on the technical ground devices as high precision, readiness, in fact 24-7 availability during the whole year, and the highest possible reliability result directly from requirements of the subject of activity. Excellent quality of provided services is expected by our customers.

LPS SR, š. p. every year invests big amounts of money to buy new technological devices and systems, by means of which permanent high level of safety is reached and the efficiency of the provided air traffic services is improved. Parameters of systems and devices must enable to manage air traffic not only safely, but also fluently, without delays, and that in spite of constantly growing density of the air traffic over our area.

### **New System EUROCAT 2000**

In 2005, important improvement of quality can be determined in the sphere of systems of processing and displaying of radar information. During the first half of the year, preparations for the implementation and tests of this new version of the system EUROCAT 2000 took place. This modern system was successfully implemented to regular operation on 31 May 2005 – before the beginning of challenging summer season from the capacity point of view. The role of this system is to provide controllers with display of air situation in the real time together with information about flight plans. Innovation can help master requirements on the increased capacity of the airspace, as well as to maintain high standard of safety, quality, and fluency of all provided services.

Deployment of new systems for conversion and distribution of radar data RMCDE (Radar Messages Conversion and Distribution Equipment) and ARTAS (ATM Surveillance Tracker and Server) was related to launching into operation of the new version of system EUROCAT 2000 in 2005; analyses and adjustments of radar parameters MSSR Veľký Javorník a Veľký Bučejň were executed.

In 2005 projects related to the modernization of the infrastructure continued. Among the most significant were:

- 1) Transition of data communication and rebuilding of the radio communication spots from the transfer system SACON to the technology enabling unification of independent data flows to one transfer medium with high transmission speed with help of the so-called multiplexers (MUX).
- 2) Completion and launching into operation of new radio communication spot on Sitno, (installation of new stands, soldering of frequencies, connection of frequencies to RCMS and communication network and issuing of operational certificate for the local management of the air operation).
- 3) Overall integration of all groups of devices into system of remote control and supervision from one coordination center.

In 2005 all planned activities in relation to maintenance of the devices were executed. Failures of the devices were removed operatively.

With help of the whole range of important supporting factors, as for example proposal of proper architecture, performance of preventive maintenance, high competency and skillfulness of the technical staff, technologically modern devices, it was possible to reach the overall average operability of the devices for the year 2005 better as defined by the long-term quality aim of 99.5 %. From the total number of 78 monitored and evaluated provided technical services, the great majority (63 – four fifths) reached the overall operability better than 99.9 %.

Unequivocally manifested positive influence on the increase of reliability had the launching into operation of new system EUROCAT 2000, which was demonstrated on distinctive lowering of the numbers of failures and shortening the overall time needed for the maintenance of the system.

Devices for the technical provision of air traffic operational services in the sphere of activity of LPS SR, š. p. represent



complicated complex, made of:

Communication infrastructure and transfer networks

The primary aim of the communication services is the provision of safe, sufficiently efficient, effective, and mutually cooperating communication solutions. Generally they are oriented on internationally accepted standards and use of new, generally accessible technologies, which increase performance and reliability. In flight praxis, communication is made out of three main elements of connections: ground - ground; air - ground; air - air:

Display systems of processing and displaying radar and flight data

Generally said they secure transparent display of air situation.

Secondary and primary display radars

Unthinkable part of the display systems is made out of radars. These are complex devices enabling to determine exact information, for example concerning position and speed of airplanes by means of high-frequency signals. Primary radars provide constant information on distance and azimuth of airplanes in the operational reach of the radar system. Secondary display radars (MSSR) deployed on Velký Javorník and Velký Bučeh besides stated functions, thanks to processing of information from transponders on the airplane deck, provide information about identification and altitude of airplane.

Radio communication devices and navigation devices

These are systems of exact approximation of ILS, position signals MKR (markers), omni directional radio beacons VOR and DVOR, non-directional beacons NDB, meters of distance DME. All these devices represent sophisticated ground devices. Air navigation services can be divided into air operational services, which are provided for the crews on the airplanes by means of managing of the air operation and navigation services, where output information is in the form of signals displayed directly on devices on the deck of the airplane, used by the crews of the airplanes.

Systems of the recording of voice communication and radiophone exchange

Due to possible seriousness of the consequences of potential events in air operation, as well as from other operational and safety reasons, all information channels, voice communication, and data are recorded on media by means of recording devices, which also make up significant group, without which the provision of the air navigation services would not be possible.

Systems of constant charging

Important group of devices is represented by distribution systems of electric energy. They provide instant charging as inevitable condition for the operation of all electric devices. For the insurance of constant charging, especially important operational devices are connected also to non-failure sources of electric energy with the function of automatic switch to backup source.

### **Aeronautical Information Service (AIS)**

Main activity of the AIS is the provision of flight information important for the air operation. Apart from the main activity also other activities were provided, i.e. issuing of L class regulations (equivalents to Annex ICAO), united air regulations JAR and other documents, activity of point-of-sale of ICAO documents and consultancy in the area of AIM (Aeronautical Information Management). In the framework of performing air information services, the shift service of Air information brochure of the Slovak Republic (AIP) was provided and other parts of the integrated file of flight information in compliance with the requirements and needs of the users were issued.

In the sphere of automatization, the activities leading to improving the quality of provided services by means of automatized systems were directed towards modification of systems with the aim to provide for compatibility with EAD (European AIS Database), on project of electronic AIP (eAIP), on preparations for the provision of services by means of interactive webpage and implementation of DMS (Document Management System).

In the framework of preparations for the connection of national system AIM to the EAD, works on testing modified automatized systems and on testing of individual functions continued. The agreement between Eurocontrol and LPS SR, š. p. on provision of EAD services was concluded. In June 2005 began the process of connection itself, which will be concluded in the year 2006.

In relation to upcoming changes in the provision of AIS in the European airspace resulting from the program of Single European Sky (SES), activities directed to the development of regional cooperation in the sphere of AIM continued. Regional workshop aimed at improving cooperation of individual subjects taking part in the creation, processing and use of flight information was organized.

Study for the European Commission: „Provision of flight information for European upper air space” and related study „Impact Assessment Study” for Eurocontrol was concluded in the monitored period. At the same time, project „Conversion of text part of Greek AIP to three-part format” was completed. Further on, the project „Study of the AIS Business Model” for Eurocontrol was carried out.

### **Search and Rescue Service**

In the course of the evaluated period, the activity of RCC (Rescue Co-ordination Centre) was carried out in compliance with the mission of the company and pursuant to the regulation for the performance of service on RCC and related managing acts. Effort to decrease the work load of respective posts of ATS and change of methods predominantly when losing or non-establishing the connection of airport with the respective post resulted in significant increase of incidents for the year 2005 registered at RCC. During the year 2005 the activity of the center was used in 232 cases (for the year 2004 in 114 cases). In 94 cases it concerned recording of broadcast on frequencies determined for emergency transmitters of location ELT

(Emergency Locator Transmitter), the source of which was in 34 cases identified. In other cases it concerned non-professional operation and unauthorized manipulation with the ELT devices or disturbances on emergency frequency and the source was not identified. During the monitored period, there were overall 88 extraordinary flight incidents (out of this eleven flight accidents, during which 9 persons died). From the evaluation center of the satellite system Cospas/Sarsat we were asked for help when determining the source of monitored place of broadcasting emergency signal in ten cases. In 66 cases, the cooperation with neighboring RCC in Prague, Warsaw, and Vienna was inevitable when providing the service of searching the source of emergency broadcast, which completely confirms the need of further permanent increase of the level of language knowledge by roughly half of the employees RCC. Flight without connection in the air space of the Slovak Republic was registered in 61 cases. All of these cases belonged to the category of PLC (Prolonged Lost of Communication).

In eight cases, the period of uncertainty (INCERFA) was declared, in five cases period of emergency (ALERFA), as well as period of anxiety (DETRESFA). All periods of emergency were gradually retracted after finding the airplane, after reestablishing the contact or after its safe landing on substitute airport. Inter-departmental cooperation with Armed Forces of the Slovak Republic was pursuant to respective agreements used in two cases as well as by training of the action „violator“. The external auditor performed re-certification audit of the quality management system on RCC at the end of January. No discrepancies were detected.

Further increase of quality of cooperation when providing search and rescue services and decrease of the number of false broadcasting on emergency frequency should be achieved thanks to mutual meeting with the representatives of Slovak flight providers, which took place in Bratislava in April.

Mutual negotiations of the leaders of RCC from Czech Republic, Austria, and Slovakia took place in May in Bratislava and in Vienna, during which the present cooperation was evaluated.

A common meeting with the representatives of CRVO (Center for management of air operations) took place in June in Bratislava, who took part in the provision of search and rescue service in the framework of Air Force of the Armed Forces of the Slovak Republic with the aim to evaluate the cooperation.

Detailed analyses of individual cases and procedures (with the participation of LÚ SR) and regular testing of theoretical knowledge contributed to the improvement of work of RCC. Approach and interest of employees in language knowledge also improved and the employees of RCC participated in informative diagnostic verification of the knowledge of English language.

In October, there was a joint instructional-methodology training concerning the problems of provision of search and rescue services with the participation of experts from Great Britain.

## Human Resources

Human resources policy is based mainly on ATM services provision concept up to 2010, which was adopted by top management of the company in 2003. This concept reflects all significant international strategies and programmes (e. g. EUROCONTROL ATM 2000+ strategy, CEATS UAC Project, SES, etc.). The CNS domain is also involved as well as other supporting activities which are to be managed with company's own personnel. Some of the trends in ATM evolution, especially in human resources domain, there is vital to focus on safety related personnel. However, it is important to underline that, from objective reasons, the uncertainties still exist, which limit the predictability of the future progress within entire European region and, therefore, are limiting factor of the future development in the Slovak Republic.

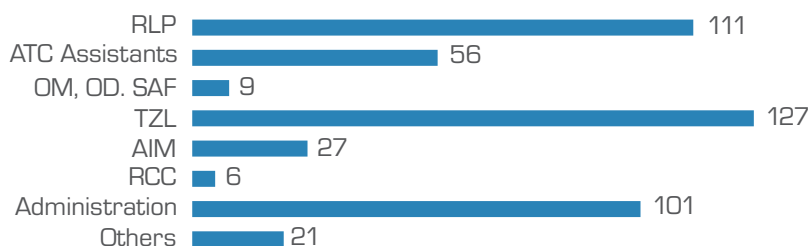
The greatest accent from human resources domain point of view is focused on ATS units staff, where the biggest attention is given to air traffic controllers. They are monitored continuously from the selection phase through institutional training followed by On-the-Job Training up to individual operational work and ongoing maintenance of professional competence and fitness. Similar process is applicable to CNS personnel, however, with specific requirements.

In-service courses, practical training, special seminars etc. are available for all employees where required or is relevant.

Several social programmes exist in welfare domain of the company.

The company has 458 employees, of those 132 women as at 31 December 2005. 21 employees in total were recruited in 2005 and one employee returned from maternity leave. In the monitored period, the number of employees was lowered of 48 employees. 6 employees commenced maternity leave. Employment contract was terminated by the agreement with 38 employees, out of which with 29 due to redundancy.

### STAFF STRUCTURE FOR YEAR 2005



## ECONOMIC SITUATION

### Evaluation of the LPS SR, š.p. Business Results for 2005

Analysis of the economic results for the period of I. – XII. 2005 confirms changes in trend of their long-term development since 1999 under the influence of use of Eurocontrol DOC 04.60 01 „Principles for establishing the cost base for route facility charges and the calculation of the unit rates” on the business results. Due to the fact that this item is basic component of the creation of profits (for the year 2004 en-route payments comprised 84.08 %), in 2005 due to lowering of the basic unit rate from 54.89 EUR to 39.34 EUR in the interest of keeping the principle of „non-profit”, the share of en-route charges on profits fell to 79.45 %. Expressed financially, it represent decrease of TSKK 310 463.1. Therefore, the expectations of lower fulfillment of other qualitative indicators as added value, productivity from added value, profit and from it derived ration indicators is coming true.

In the sphere of costs, the company reached saving in comparison with the same period of the year 2004 in the amount of TSKK 97 110.6, which represents decrease in index comparison to the level of 0.93.

Lowering of costs in comparison with the year 2004 was registered in four items and moderate increase was registered in three items.

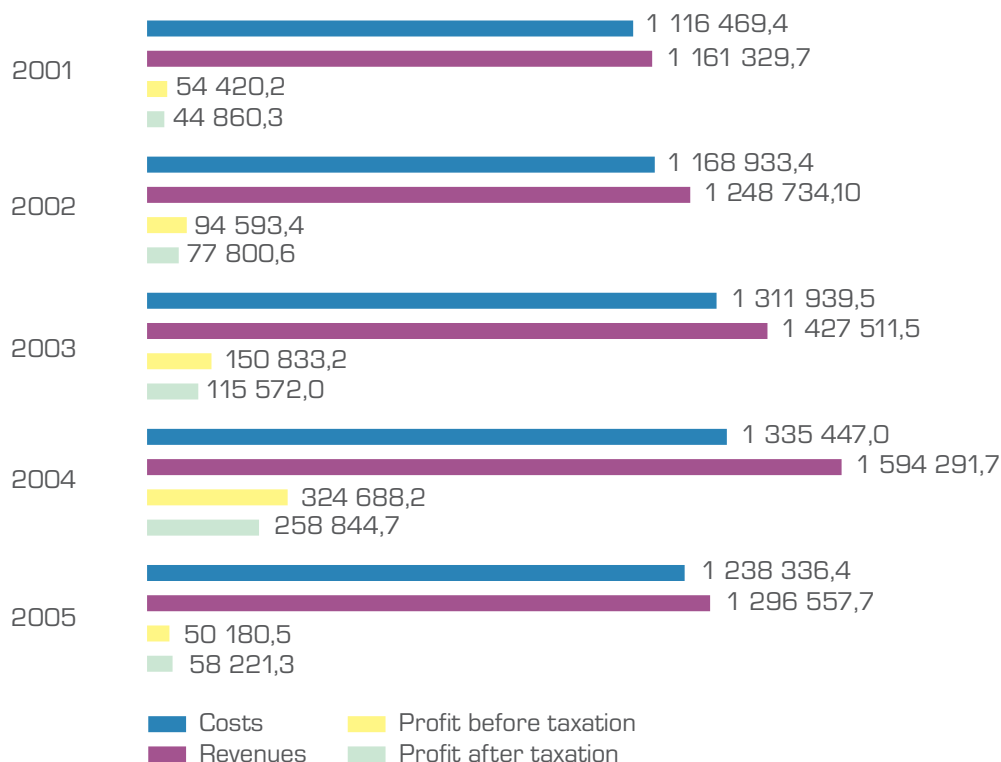
In the sphere of the overall profits, the company reached in comparison with the same period of the year 2004 lower profits of TSKK 297 734.0, which is decrease in index comparison on the level of 0.81. In absolute value decisive is decrease of revenues from sale of services in comparison with the same period of the year 2004 of TSKK 288 103, 0, which is represented by index 0.80. Main reason for decrease of this indicator is the decrease of revenues from en-route charges of TSKK 310 463.1, which represents index level of ratio with the same period of the year 2004 by the value of 0.71. In this item, despite growth of number of invoiced service units in comparison with the same period of the year 2004 (of 67 493, which is 11.2 %), relatively negative impact of using the principles stated above was demonstrated. In other items of revenues for own performance and goods, a moderate increase is recorded, predominantly in the item approach and aerodrome control charges (increase of TSKK 21 653.8 – index 1.21). Due to low volumes, these do not have such an influence on the creation of profits as invoiced en-route charges.

Decrease of revenues from own services and goods had influence on decreasing the creation of the added value and on share of the productivity from the added value on an employee. In comparison with the year 2004 by means of these changes, the decrease of the creation of the added value for the year 2005 presents TSKK 256 315.0, which is 79.21 % of the production of added value from the year 2004. Production from the added value decreased for the year 2005 in comparison with the year 2004 from SKK 2 542 000 to SKK 2 123 000 in the year 2005 which is 83.50 %.

### Cost and revenues for I-XII 2005 and 2004 in '000 SKK

Account	Name	Reality I. - XII. 2005	Reality I. - XII. 2004	Index 05/04
50x	Consumed purchase	40 282,0	60 753,8	0,66
51x	Services	153 367,5	164 501,9	0,93
52x	Personal costs	589 138,8	560 246,4	1,05
53x	Taxes and fees	1 762,3	1 543,0	1,14
54x	Other operating costs	162 882,2	109 124,9	1,49
551	Deprecation and amortization	166 275,3	193 260,3	0,86
55x	Creating of legal reserves and provisions	68 274,4	72 336,4	0,94
56x	Financial costs	64 394,7	107 490,8	0,60
574	Creating of reserves	0,0	0,0	
58x	Extraordinary costs	0,0	346,0	
59x	Income taxes and transfer accounts	-8 040,8	65 843,5	
	<b>Total costs</b>	<b>1 238 336,4</b>	<b>1 335 447,0</b>	0,93
60x	Revenues from own services and goods	1 169 995,6	1 457 477,4	0,80
601	Revenues from own goods - AIM publications	658,7	552,1	1,19
602	Revenues from services	1 168 786,3	1 456 889,3	0,80
	Total approach charges	126 140,0	104 486,2	1,21
	Total en-route charges	1 030 060,5	1 340 523,6	0,77
	Total training flights	2 984,9	2 191,2	1,36
	Other revenues from services	9 207,1	9 273,6	0,99
	Other revenues	393,8	414,7	0,95
604	Revenues from merchandise	550,6	36,0	15,29
613	Changes in merchandise	24,7	560,4	0,04
621	Material and goods capitalisation	230,9	135,4	1,71
64x	Other revenues from economic activity	31 116,6	31 480,5	0,99
64a	Revenues from sale of long terms assets	1 453,7	19,5	74,55
64b	Other operating revenues	29 662,9	31 461,0	0,94
65x	Clearing of revenues and provisions	73 961,4	52 778,0	1,40
66x	Financial revenues	21 215,5	51 559,8	0,41
68x	Extraordinary revenues	13,0	300,2	0,04
	<b>Total revenues</b>	<b>1 296 557,7</b>	<b>1 594 291,7</b>	0,81
	<b>Profit before taxation</b>	<b>50 180,5</b>	<b>324 688,2</b>	0,15
	<b>Profit after taxation</b>	<b>58 221,3</b>	<b>258 844,7</b>	0,22

## COMPARISON OF INDICATOR'S EVOLUTION IN '000 SKK (FOR YEARS 2001 - 2005)



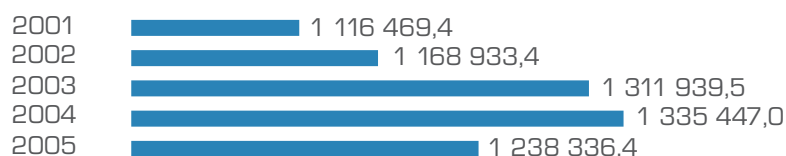
### Costs

In comparison with the Financial Plan for the year 2005, which defined, in order to provide fluent and safe flight operations above the area of the Slovak Republic, to draw costs in the overall value of TSKK 1 248 412,4, the real drawing was in the amount of TSKK 1 238 336,4, which represents 99.2 % drawing of the plan. In comparison with the year 2004 it represents decrease of costs in the year 2005 of TSKK 97 110,6 (index 0,93).

The real drawing of the individual items of costs in comparison with the Financial Plan of the year 2005 was as follows:

- Consumed purchase reached the planned level 100.42 %; in comparison with the reality of the year 2005 and 2004, decrease was recorded (index 0,66).
- Services were drawn in the amount of 72.37 % in comparison with Financial Plan 2005; in comparison with the reality of the year 2005 and 2004, decrease was recorded (index 0,93).
- Staff costs overall were drawn in the amount of 98.21 % of the Financial Plan, in comparison with the reality of the year 2005 and 2004, increase was recorded (index 1,05), which was reflection of using the seniority of categorization of employees pursuant to valid inner company standards, taking into account share of inflation pursuant to collective agreements for the year 2005, and together with the increase of salaries increase of legal social insurance and social costs was related.
- Taxes and fees were drawn at 98.56 % of the Financial Plan 2005; in comparison with the reality of the year 2005 and 2004, increase was recorded (index 1,14) and that especially in the item of taxes from estates.
- Other operating costs reached the level of 122.34 % in comparison with the Financial Plan 2005; in comparison with the reality of the year 2005 and 2004, increase was recorded (index 1,49) and that in the item of charges Eurocontrol and in the item amortization of debts.
- Amortizations of Long term tangible and intangible assets were drawn at 97.43 % of the plan; in comparison with the reality of the year 2005 and 2004, decrease was recorded (index 0,86).
- Financial costs were drawn on the level of 92.37 % in comparison with the Financial Plan 2005; in comparison with the reality of the year 2005 and 2004, decrease is recorded (index 0,60).

## COMPARISON OF COSTS EVOLUTION IN '000 SKK (FOR YEARS 2001 - 2005)



## Revenues

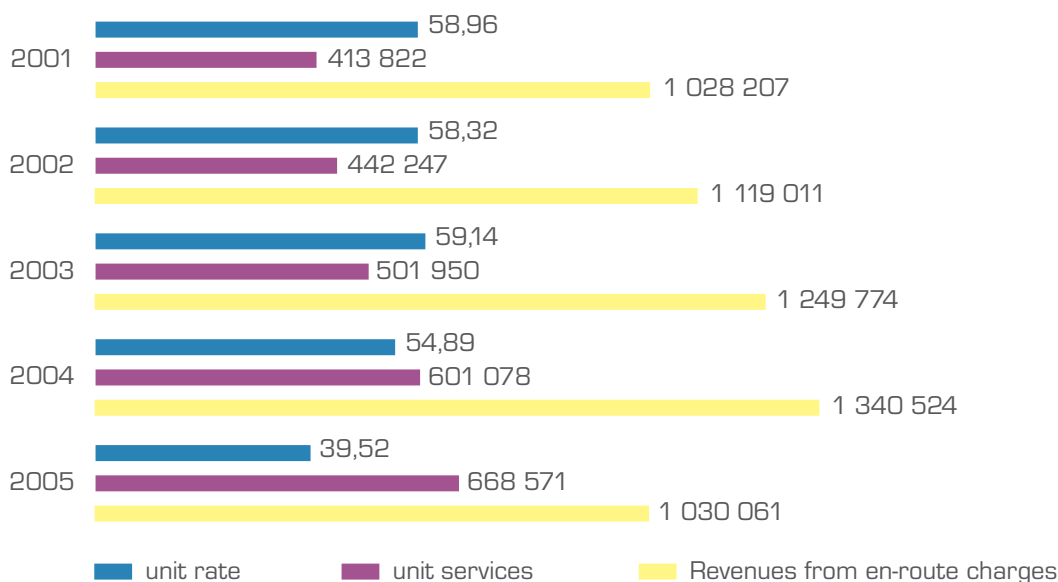
Significant influence on the creation of revenues had revenues from the sale of services and those en-route charges. These are dependent on the number of invoiced service units and on the amount of en-route unit rate in EUR. In the development of revenues for en-route charges until the year 2004, keeping almost constant en-route unit rate and gradual increase of invoiced service units, the revenues for these services grew proportionally. Their growth is demonstrated in the overall revenues, in the growth of added value, in the growth of productivity from the added value, in the growth of profit, and in ratio indicators, the basis of which is the level of achieved profit.

For the year 2005, the amount of the en-route unit rate was defined at 39.52 EUR, which represents decrease in comparison with the year 2004 of 15.37 EUR. At the same time, the Eurocontrol's prognosis of the development of the air traffic density, based on experiences from the year 2004, were taken into account, which assumed increased revenue due to the growth of traffic. It constituted basis for the creation of the Financial Plan in the sphere of revenues from the en-route charges. When calculating unit rate of the en-route charge for the year 2005, all forecasted costs for the year 2005 for the operational activity were included, costs for the administration, for the trainings, schoolings, services of AIM, MET services and divided by a forecasted number of 668.8 thousand of chargeable service units. In comparison with the reality of the year 2004 it was assumed an increase of chargeable service units in the plan of the year 2005 of 11.3 %, which was 67 722 service units.

### COMPARISON OF REVENUES EVOLUTION IN '000 SKK (FOR YEARS 2001 - 2005)



### COMPARISON OF EVOLUTION UNIT RATE, SERVICE UNIT AND REVENUES FROM EN-ROUTE CHARGES (FOR YEARS 2001 - 2005)



For the year 2005, the company made total revenues in the amount of TSKK 1 296 557,7, which is 96.85 % of the planned year assumption. This result was significantly influenced by the revenues from en-route charges, which were invoiced in the amount of TSKK 1 030 060.5. Decrease in comparison with the year 2004 represented index 0.77, expressed financially means decrease of TSKK 310 463.1.



## Business Result

The company made for the year 2005 business result before taxation in the amount of 50 180.5 thousand. After settling of taxes for the monitored period, the company made profit in the amount of TSKK 58 221.3. The difference of TSKK 8 040.8 to the advantage of profit after taxation is the result of tax clearance for ordinary year in TSKK 5 362.6 and given away tax in TSKK 13 403.4.

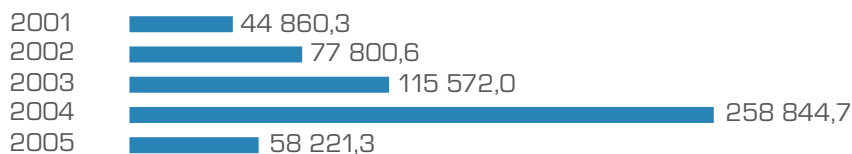
Positive influence on the creation of positive business result for the year 2005 had predominantly achieved savings in the drawing of costs.

Another decisive item influencing the creation of the profit in the year 2005 were revenues for invoiced en-route charges.

For the year 2005, the unit rate for the en-route charges was approved in the amount of 39.52 EUR, which represents decrease in comparison with the plan of the year 2004 of 15.37 EUR, predominantly due to the fact of implementing the so-called adjustment mechanism pursuant to the Eurocontrol DOC 04.60 01 „Principles for establishing the cost base for route facility charges and the calculation of the unit rates” resulting from the membership of the Slovak Republic in this organization. At the same time, the prognoses of the development of air traffic density Eurocontrol resulting from experiences from the year 2004 were taken into account, which assumed increased revenues due to the growth of operation.

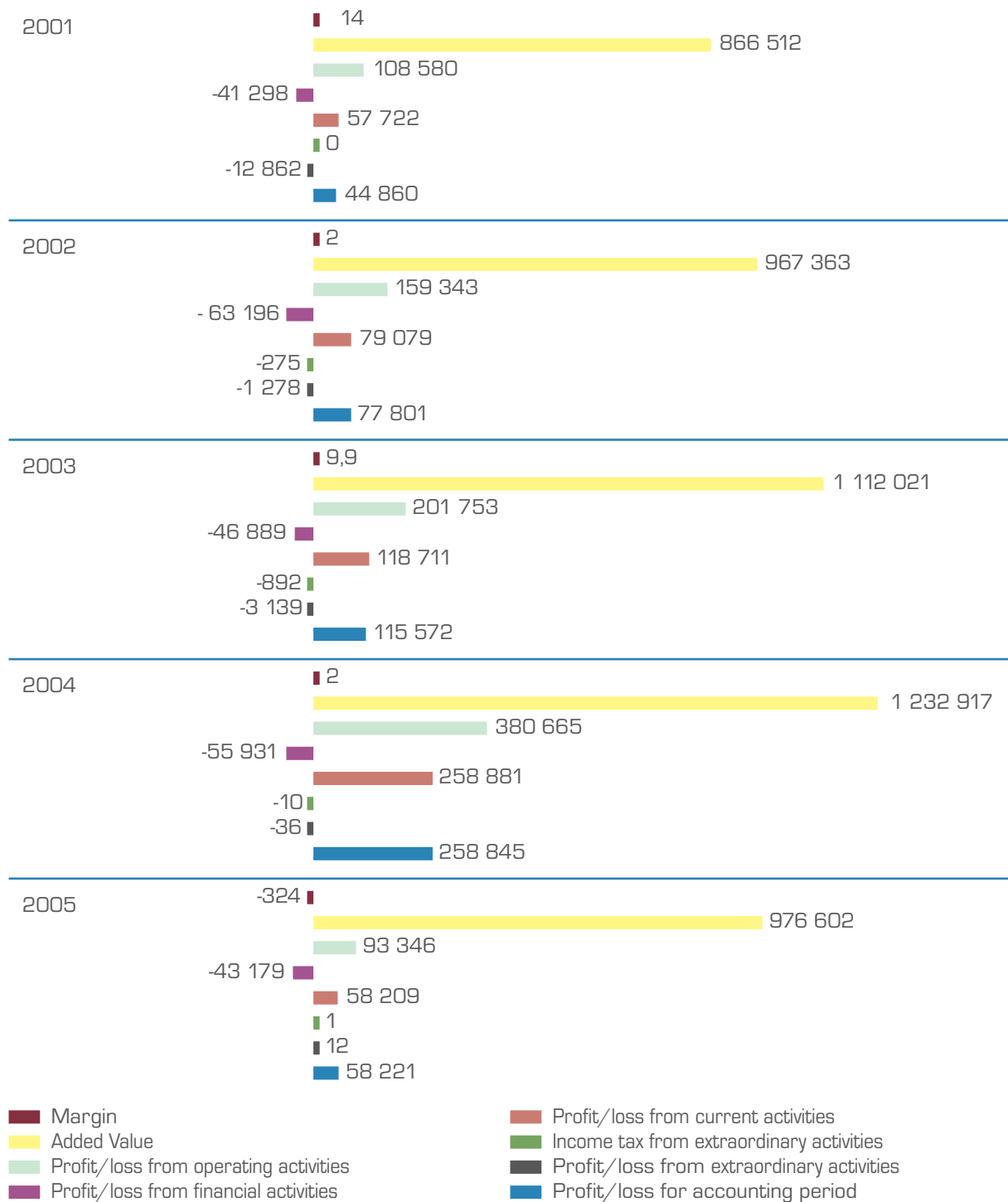
The company in the framework of the process of formal consultations organized on 26 April 2005 already second conference on cooperation with the users and subjects taking part on civil air transportation in Slovakia, where, besides operational matters, information were given on policy of charges of the company and on trend of determining unit rates for air navigation services.

### PROFIT AFTER TAXATION EVOLUTION IN ´000 SKK (FOR YEARS 2001 - 2005)





**PROFIT SOURCES COMPARISON IN '000 SKK  
(FOR YEARS 2001 - 2005)**



**Profit and loss for years 2001-2005 – short version**

TEXT	2001	2002	2003	2 004	2005
Margin	14	2	20	2	-324
Added Value	866 512	967 363	1 112 021	1 232 917	976 602
Profit/loss from operating activities	108 580	159 343	201 753	380 665	93 346
Profit/loss from financial activities	-41 298	-63 196	-46 889	-55 931	-43 179
Profit/loss from current activities	57 722	79 079	118 711	258 881	58 209
Income tax from extraordinary activities	0	-275	-892	-10	1
Profit/loss from extraordinary activities	-12 862	-1 278	-3 139	-36	12
Profit/loss for accounting period	44 860	77 801	115 572	258 845	58 221

## 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 realize – transform material value and securities to moneys and it is expressed as follows:

- a) ratio of financial assets to short-term foreign funds, for 2005 this indicator in the LPS SR, š. p. is 2.80 – 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 2005 this indicator in the LPS, š. p. is 4.35 – 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 2005 this indicator in the LPS SR, š. p. is 4.66 – 3rd level liquidity – total liquidity, while the required value is 2.0 and optimum value is 0.2 up to 0.5.

Up to 31 December 2005 the balance of financial funds on the accounts of the company was in the amount of TSKK 478 010.0.

## Fulfillment of Credit Conditions of the Loan EIB

As at 31 December 2005 the EIB transferred to the LPS SR, š. p.'s account all funds from the loan 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 loan continuously in compliance with installment schedule.

In February, eleventh installment of principal amounting to TSKK 36 181.5 was paid, and twelfth installment of the credit amounting to TSKK 36 957.9 was paid in August. Within the period under review also installments of interests from the loan in the total amount of TSKK 5 982.8 were paid in February and in the total amount of TSKK 5 096.6 in August. After payment of the loan installment the loan balance was translated by using current exchange rate to TSKK 142 872.9 as at 31 December 2005.

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 installment schedule of the loan and interests from the loan for 2006. As at the date of maturity of the installment, the LPS SR, š. p. had, at its deposit account, funds equal at least to the next installment. The LPS SR, š. p. was elaborating for the Ministry of Transport, Posts and Telecommunications of the Slovak Republic on request surveys on current state of loans 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.

## Other Evaluating Indicators

For the year 2005 in comparison with the year 2004 in the item salaries and compensations of salary, increase of index 1.03 was recorded, which was due to implementing of seniority of employees and due to result of collective negotiations on taking into account inflation in the salary.

In the year 2005, decrease of the average registered number of employees was recorded from 485 in the year 2004 to 460 in the year 2005. Decrease of 25 employees in average was reached due to reasons resulting from the respective provisions of the Labor Code, by leaving to invalid retirement, premature old age pension, by deleting some of the positions due to rationalization procedures, and due to other reasons.

Decisive influence on the creation of added value (PH) by LPS SR, š. p. has the production (P) represented by „Revenues from the sale of services“. Other conditions, which influence its creation, is drawing of inter-consumption (MS) comprised of costs for consumed purchases and services and deficits and damages on supplies (MZ) in the amount before receiving the reimbursement for damage from the insurance companies.

In the year 2005 with the valid formula of calculating  $PH = P - (MS + MZ)$  its value is TSKK 976 601. In comparison with the year 2004 it represents decrease of 20.8 % evoked by the decrease of revenues for own goods and services depending from the revenues of transits and savings of consumed purchases in comparison with the year 2004.

Lowering of the indicator of the productivity of work from added value per one employee for the year 2005 in comparison with the year 2004 was caused by the stated decrease of the added value despite decrease of the number of employees of 25.

### 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 business standing and on the basis of founder's requirements, liquidity and other indicators were evaluated in order to monitor the Company's economic standing development.

### Indicators of Efficiency - Profitability

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 2005 is 4.98 %.

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 2005 is 2.96 %.

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 2005 is 3.67 %.

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 2005 is 5.01 %.

### Yearly Remuneration of General Director and Members of the Supervisory Board

After evaluating business results of the company for the year 2005 Ministry of Transport, Posts, and Telecommunications of the Slovak Republic as the founder, granted General Director of the company yearly remuneration pursuant to the Act No. 111/1990 Coll. § 19 Sec. 8 in the amount of 1 100 580,- SKK.

At the same time, remunerations for the members of the Supervisory Board were granted pursuant to the Act No. 111/1990 Coll. § 20 Sec. 10 in the amount of 357 790,- SKK.

### Investment plan and capital expenditures

The Company approved Investment Plan for the Year 2005 in the amount of TSKK 418 817.77. In the year 2005 TSKK 340 477.40 were spent, out of which TSKK 267 338.02 for acquisition of long-term tangible and intangible assets and TSKK 73 139.39 for installments of the loan from the EIB.

Since the change of legal form of the Company from allowance organization RLP SR to state enterprise LPS SR, TSKK 1 607 036.4 of investment funds from own sources were spent in the framework of expansion and renewal of the production devices, out of which TSKK 481 608.5 were spent for installments of loans from preceding years.

Capital expenditures in TSKK 2001		Forecast 2006	2005	2004	2003	2002
Sources - investment plan	383 914,8	447 117,0	332 751,0	320 446,8	305 410,0	298 135,0
- own sources	383 914,8	447 117,0	332 751,0	320 446,8	305 410,0	298 135,0
Using	331 666,0	340 477,4	306 789,7	251 258,4	197 249,6	229 644,0

## OUTLOOK 2006

Development Strategy of the Company is based on management plans approved in the Business Plan for 2006 - 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 2006 was discussed by the Supervisory Board on 23 May 2006 in compliance with Act on State-Owned Company No. 111/1990 Coll., Article 19, Para. 6. The strategy contains Financial Plan of Costs and Revenues based on the following assumptions:

- The Financial Plan of Revenues and Costs is compiled on the basis of expected costs and revenues of the LPS SR, š. p. incurred to provide air navigation services in the airspace of the Slovak Republic.
- Total costs were increased for the year 2006 of 13.55 % in average in comparison with the Financial Plan for 2005 (TSKK 1 248 412.4), i.e. total costs are in the amount of TSKK 1 417 652.8.
- The Plan of Revenues for 2006 expects increase of revenues for TSKK 86 329.0 in total, i.e. an increase for 6.4 % in comparison with the Plan for 2005.
- Total revenues are planned in the amount of TSKK 1 425 051.0. Incomes from en-route charges will represent a decisive part of revenues of the LPS SR, š. p. and they will be in the total amount of TSKK 1 238 445, what is approximately 90 % of all revenues.
- Revenues from sale of goods are expected in the amount of TSKK 35.0, what is comparable with the Plan for 2005.
- Other revenues from economic activity are expected in the amount of TSKK 28 801.0, what is comparable with the plan for 2005.
- Financial revenues are expected in the amount of TSKK 11 000.0, i.e. a decrease for TSKK 3 700.0 in comparison with the Plan 2005. There is expected decrease in item exchange rate profits.
- All costs expected in the year 2006 on operation activity, costs of administration, trainings, schoolings, AIS services and MET services were included in calculation of en-route unit rate for the year, while the expected density of flight traffic is 703 thousand of chargeable service units in 2006.
- For 2006 the planned en-route unit rate is in the amount of EUR 39.15 EUR, which is a further decrease for EUR 0.37.

In the sphere of air traffic control, growth of IFR flights is assumed in the amount of 4 % (source STATFOR), i.e. about 350 thousand. In order to insure sufficient capacity, it will require installation of another (sixth) sector at ACC Bratislava, which will serve at the same time as backup in case one of the activated sectors would fall out.



## AUDIT REPORT

To the Supervisory Board of the state enterprise Letové prevádzkové služby Slovenskej republiky, š. p.:

We have audited the attached regular Financial Statements of the company Letové prevádzkové služby Slovenskej republiky, š. p. (the "Company") that comprise the Balance Sheet prepared as of 31 December 2005, respective Profit and Loss Statement for the year that ended as of the said date and the Notes.

Management of the Company is responsible for keeping of books so that they would be complete, provable and correct and for preparation of the Financial Statements so that they would provide a true and accurate overview of assets and liabilities, business results and financial situation of the Company. Our responsibility is to express our opinion on the above-mentioned Financial Statements in accordance with the standards on auditing in force and the opinion shall be based on results of the audit.

Audit of the regular Financial Statements was conducted in accordance with the Act No. 73/1992 Coll. on Auditors and the Slovak Chamber of Auditors and in accordance with the International Standards on Auditing (ISA) issued by the International Federation of Accountants. According to these standards we shall plan and conduct the audit so that we obtain reasonable assurance that the Financial Statements are free of any significant inaccuracies. The audit includes verification of the accounting records and other information supporting the sums and other data in the Financial Statements based on tests. The audit also includes evaluation of used accounting principles and evaluation of important estimates of the Company management, as well as evaluation of presentation of the financial statement as a whole.

We are confident that based on the results of the auditing procedures applied, our audit provides a reasonable basis for our opinion.

**In our opinion, the Financial Statements of the Company Letové prevádzkové služby SR, š. p. express fairly, in all its material aspects, the assets and financial situation as of 31 December 2005 and the business results for the relevant year, and it is prepared in accordance with the Act No. 431/2002 Coll. on Accounting, as amended and in accordance with the accounting procedures in force in 2005 for the business entities keeping double-entry records.**

In Bratislava, on 9 May 2006



Ing. Jana Tomšíková  
Auditor, SKAu licence No. 454

## AUDITOR'S REFERENCE REPORT

**Confirmation of consistency of data stated in the Annual Report 2005 of the state enterprise Letové prevádzkové služby Slovenskej republiky, štátny podnik, M. R. Štefánik Airport, Bratislava.**

Pursuant to provisions of section 20 of the Act No. 431 /2002 Coll. on Accounting as amended, the state enterprise Letové prevádzkové služby SR, having its registered office on the M. R. Štefánik Airport, Bratislava has prepared and submitted the annual report on its activities and management for the year ending with 31 December 2005.

The Annual Report includes the balance of assets and liabilities, the achieved business result, evaluation of the financial situation of the state enterprise, as well as distribution of the net business result. The Annual Report evaluates the development so far as well as the estimated development for the following period.

The Annual Report comprises accounting statements - the Balance Sheet, the Profit and Loss Statement and the Notes prepared as of 31 December 2005 as a part of the Financial Statements of the state enterprise.

**We confirm that the data included in the Annual Report 2005 of the state enterprise Letové prevádzkové služby SR, š. p. are consistent with and relate to the data stated in the accounting statements - the Balance Sheet, the Profit and Loss Statement and the Notes that have been prepared as of 31 December 2005 and that are a part of the Financial Statement of the state enterprise for the relevant accounting period.**

Bratislava, on 10 July 2006



A handwritten signature in blue ink, appearing to read "Jana Tomšíková".

Ing. Jana Tomšíková  
Auditor SKAu Licence No. 454



## BALANCE SHEET AS AT 31. DECEMBER 2005 IN TSKK

ASSETS		
	<b>Total assets</b>	<b>1 965 532</b>
B.	Fixed assets	1 096 380
B.I.	Long-term intangible assets	4 676
B.II.	Long-term tangible assets	1 091 704
B.III.	Long-term financial assets	0
C.	Curent assets	821 147
C.I.	Stock sum	53 702
C.II.	Long-term receivables	11 243
C.III.	Short-term receivables	269 192
C.IV.	Financial accounts	487 010
D.	Acruial and deferral	48 005
LIABILITIES		
	<b>Total equity and liabilities</b>	<b>1 965 532</b>
A.	Equity	1 613 923
A.I.	Equity capital	1 163 083
A.II.	Capital funds	0
A.III.	Funds from profit	444 633
A.IV.	Profit/loss from previous years	- 52 014
A.V.	Profit/loss for accounting period	58 221
B.	Liabilities	348 571
B.I.	Reserves	71 680
B.II.	Long-term liabilities	31 708
B.III.	Short-term liabilities sum	102 310
B.IV.	Bank credits and assistance	142 873
C.	Accrual and deferral sum	3 038



## PROFIT AND LOSS STATEMENT AS AT 31 DECEMBER 2005 IN TSKK

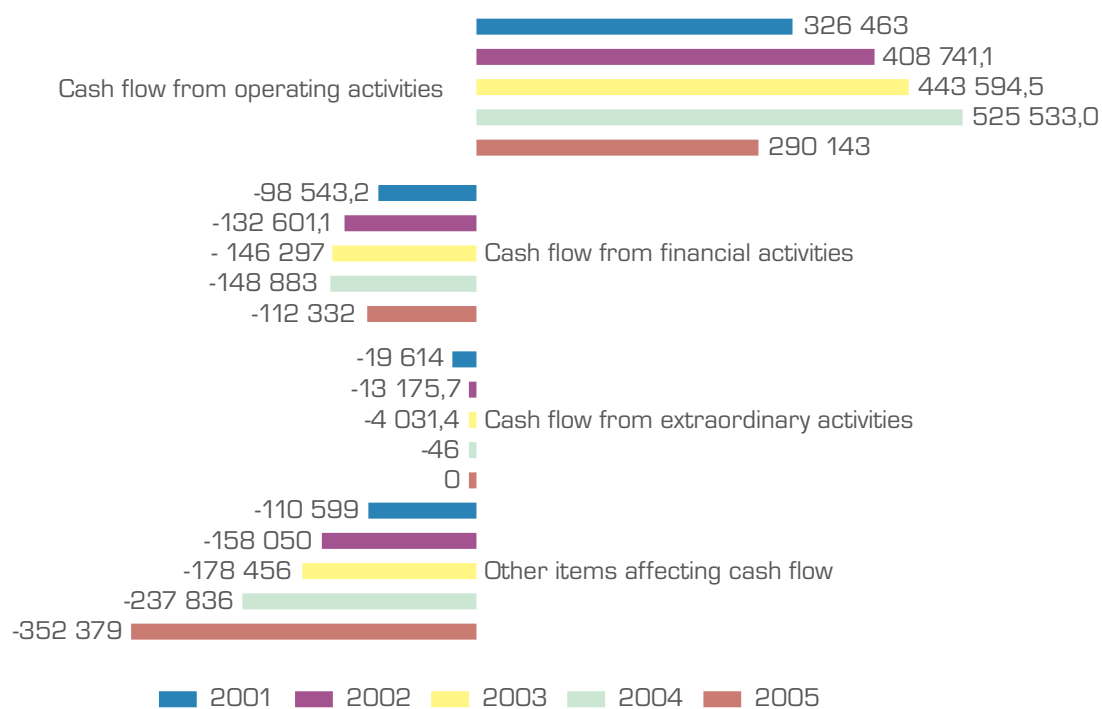
Revenues from sale of goods (604)	551
Costs on good sold (504)	875
Business margin - line 01 - 02	-324
Production - line 05 + 06 + 07	1 169 701
Revenues from sale of own products and services	1 169 445
Change in state of internal stock of own production	25
Capitalisation	231
Production consumption	192 775
Consumption of material, energy and other non-supply items	39 407
Services	153 368
Added value	976 602
Staff costs	589 139
Wage costs	458 158
Board and association member compensations	2 719
Costs on social security	106 291
Social costs	21 971
Taxes and fees	1 763
Deprecations of long-term intangible assets and amortization of long-term tangible assets	166 275
Revenues from sale of long-term assets and material	1 454
Residual price of long-term assets and material sold	
Use and cancellation of provision in revenues from economic activity and booked of origin of complex deferred costs	19 209
Creation of provisions for economic activity and settlement of complex deferred costs	21 504
Settlement and cancellation of adjusting items in revenues from economic activity	54 752
Creation of adjusting items in costs on economic activity	46 771
Other revenues from economic activity	29 663
Other costs on economic activity	162 882
Transfer of revenues from economic activity	
Transfer of costs on economic activity	
Business result from economic activity	93 346
Revenues from sale of securities and share	
Securities and share sold	
Revenues from long-term financial assets	
Revenues from securities and participations to controlled person and to company with significant influence	
Revenues from others long-term securities and share	
Revenues from others long-term financial assets	
Revenues from short-term financial assets	
Costs on sort-term financial assets	
Revenues from revaluation of securities and revenues from derivate operations	
Costs on revaluation of securities and costs on derivate operations	
Revenue interests	8 912
Cost interests	9 654
Exchange rate profits	12 303
Exchange rate losses	29 975
Other revenues from financial activity (68)	
Other costs on financial activity (568, 569)	24 764
Use and cancellation of provision in revenues from financial activity (674)	
Creation of provisions for financial activity (574)	
Settlement and cancellation of adjusting items in revenues from financial activity (679)	
Creation of adjusting items in costs on financial activity (579)	
Transfer of revenues from financial activity (-) (698)	
Transfer of costs on financial activity	
Profit/loss from financial activity	-43 179
Income tax from ordinary activity - line 54 + 55	-8 042
- due (591)	5 361
- deferred (+/- 592)	-13 403
Profit/loss from ordinary activity - line 29 + 52 - 53	58 209
Extraordinary revenues (68*)	13
Extraordinary costs (58*)	0
Incom tax from extraordinary activity	1
- due (593)	1
- deferred (594)	
Profit/loss from extraordinary activity - line 57 - 58 - 59	12
Transfer of share in profit/loss to partners (+/- 596)	
Profit/loss for accounting period (+/-) - line 56 + 62 + 63	58 221

## CASH FLOW STATEMENT AS AT 31 DECEMBER 2005 IN TSKK

Z/s	Business result from ordinary activities before taxation	001	50 167 459
A1	Non-monetary operations affecting profit/loss from ordinary activity	002	293 407 043
A1.1	Depreciations of long-term intangible assets and amortization of long-term tangible assets	003	164 063 057
A1.2	Net book value of long-term tangible and intangible assets retirement besides sales	004	2 213 224
A1.3	Depreciations of adjusting item at acquired assets	005	0
A1.4	Change in state of long-term reserves	006	54 184 389
A1.5	Change in state of adjusting items	007	7 981 261
A1.6	Change in state of accrual and deferral of costs and revenues	008	30 693 008
A1.8	Interests booked into the costs [ + ]	010	9 654 518
A1.9	Interests booked into the revenues [ - ]	011	-8 912 122
A1.10	Exchange rate loss toward cash as at 31 December 2005	012	-2 088
A1.11	Exchange rate profit toward cash as at 31 December 2005	013	10 438
A1.12	Profit from good sold	014	1 453 726
A1.13	Other items of non-monetary status, influented profit/loss from ordinary activity	015	32 067 631
A.2	Influence of changes in state of working stock	016	40 397 233
A2.1	Change in state of receivables from operating activity	017	41 782 736
A2.2	Change in state of payables from operating activity	018	-1 325 355
A2.3	Change in state of stock	019	-60 147
-	Cash Flow from operating activities Z/s + A1 + A2	021	383 971 736
A3	Received interests besides interests from investment activity	022	8 912 122
A4	Expenditures on paid interests besides interests including into the operating activity	023	-9 654 518
A.6	Expenditures on paid dividends and shares on profit besides expences including into financial activity	025	-3 315 380
-	Cash Flow from operating activities [ +/-. ] ( A1 - A6 )	026	379 913 961
A.7	Expenditures on income tax besides expences including into the investment activity	027	-107 830 155
A.8	Extraordinary income from operating activity	028	829 749
A.9	Extraordinary expences from operating activity	029	17 229 904
A1 - A9	Net cash flow from operating activity ( A1 - A9 + Z/s )	030	290 143 460
-	Cash Flow from investment activity	031	0
B.1	Expenditures on provide of long-term intangible assets	032	-791 168
B.2	Expenditures on provide of long-term tangible assets	033	-251 476 192
B.4	Incomes from sale of long-term intangible assets	035	0
B.5	Incomes from sale of long-term tangible assets	036	1 453 726
B.7	Expenditures for long-term loans	038	0
B.8	Incomes for long-term loans	039	0
B.11	Incomes from rent tangible assets that are depreciable by renter	042	0
B.12	Received interests besides interests from operating activities	043	0
B.16	Expenditures for income tax	047	0
B.17	Incomes extraordinary relating to investment activity	048	0
B.18	Expenditures extraordinary relating to investment activity	049	0
B.19	Other incomes relating to investment activity	050	28 260 308
B.20	Other expences relating to investment activity	051	-129 826 616
B1 - B20	Net cash flow from investment activity	052	-352 379 942
	Cash flow from financial activity	053	
C.1	Cash Flow in equity ( C.1.1 - C.1.8 )	054	-3 000 000
C.1.3	Received financial donatinal	057	0
C.1.6	Expenditures relating to decrease of funds created by accounting entity	060	-3 000 000
C.1.8	Expenditures relating to decrease of equity capital	060	0
C.2	Cash flow from long-term and short-term financial activity ( C.2.1 - C.2.10 )	063	-84 967 127
C.2.3	Incomes from bank loans	064	0
C.2.4	Expenditures for bank loans instalment	065	0
C.2.5	Incomes from received loans	066	0
C.2.6	Expenditures for loans instalment	067	-72 545 410
C.2.8	Expenditures for rent tangible assets that are depreciable by renter	069	0
C.2.9	Incomes from other long-term and short-term liabilities from financial activity	070	34 393 807
C.2.10	Expenditures from other long-term and short-term liabilities from financial activity	071	-46 815 524
C.3	Expenditures for paid interests with exception	072	0
C.7	Expenditure for income tax from financial activity	076	0
C.8	Extraordinary incomes relating to financial activity	077	0
C.9	Extraordinary expenditures relating to financial activity	078	-24 765 166
C.1 - C.9	Net Cash Flow from financial activity	079	-112 732 293
D	Net increase or decrease of cash money	080	-174 968 776
E	State of funds as at 1 January 2005	081	661 978 473
F	State of funds as at 31. December 2005	082	487 009 696
G	Exchange-rate difference as at 31. December 2005	083	-8 350
H	State of funds without by exchange-rate difference	084	487 001 346



## CASH FLOW EVOLUTION IN '000 SKK (FOR YEARS 2001 - 2005)





## 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, Post 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 aspect, the Company's financial standing as at 31 December 2005, as well as its business result, equity and cash flows for the year then ended and they are in accordance with International Financial Reporting Standards.

At the same time, in the notes to the annual accounts for the year finishing on December 31, 2005, part "General information", the auditor, KPMG Slovensko, spol. s r. o. stated that "on January 1, 1997 the Slovak Republic has become a member of the European Organization for the Safety of Air Navigation, EUROCONTROL, and at the same time has become one of the Contracting parties of a multilateral agreement with EUROCONTROL on receiving of route navigational service charges. The Company fulfils this function on behalf of the SR. Pursuant to EUROCONTROL's requirements the company applies the "Principles for Establishing the Cost-Base for Route Facility Charges and the Calculation of the Unit Rates", issued in November 2004.

Pursuant to the Regulation of the European Parliament and the Council (EC) No. 550/2004 of March 10, 2004 On the Provision of Air Navigation Services in the Single European Sky, the Company implements the principles and a system of main activity cost allocation."

### 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. ("the Company") as at 31 December 2005 and the related income statement, statement of changes in equity and cash flow statement 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 2005 and the results of its operations, the changes in equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

31 May 2006  
Bratislava, Slovak Republic



**Balance sheet as at 31 December 2005**  
(In thousands of Slovak Crowns)

	Note	2005	2004
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	2	1 053 157	956 267
Intangible assets	3	4 152	8 749
Deferred tax asset	4	21 001	23 882
<b>Total non-current assets</b>		<b>1 078 310</b>	<b>988 898</b>
<b>Current assets</b>			
Inventories	5	18 069	20 678
Trade and other receivables	6	201 000	252 660
Corporate income tax refund		57 943	-
Cash and cash equivalents		487 010	661 979
<b>Total current assets</b>		<b>764 022</b>	<b>935 317</b>
<b>Total assets</b>		<b>1 842 332</b>	<b>1 924 215</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Issued capital		1 163 083	1 163 083
Legal reserve and other capital funds		444 633	202 103
Retained earnings/(Accumulated losses)		(89 811)	105 387
<b>Total equity</b>	<b>7</b>	<b>1 517 905</b>	<b>1 470 573</b>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	8	71 437	145 085
Other non-current liabilities	635	425	
Provision for retirement benefits	9	54 184	44 467
<b>Total non-current liabilities</b>		<b>126 256</b>	<b>189 977</b>
<b>Current liabilities</b>			
Trade and other payables	10	126 735	149 427
Interest bearing loans and borrowings	8	71 436	72 543
Income taxes payable		-	41 695
<b>Total current liabilities</b>		<b>198 171</b>	<b>263 665</b>
<b>Total equity and liabilities</b>		<b>1 842 332</b>	<b>1 924 215</b>

The financial statements, which include the notes on pages 5 to 18, were signed on behalf of the Company on 31 May 2006 by:



Ing. Roman Biro  
Chief Executive Officer



**Income statement for the year ended 31 December 2005**  
(In thousands of Slovak Crowns)

	Note	2005	2004
<b>Revenues</b>			
Air traffic control services		1 169 445	1 456 889
Other operating income		31 668	32 069
<b>Total revenues</b>		1 201 113	1 488 958
Personnel expenses	11	(626 628)	(585 355)
Depreciation and amortization	2, 3	(170 973)	(146 886)
Other operating expenses	12	(337 547)	(348 808)
<b>Total operating expenses</b>		(1 135 148)	(1 081 049)
Profit from operations		65 965	407 909
Net financing costs	13	(10 390)	(16 738)
<b>Profit before tax</b>		55 575	391 171
Income tax expense	14	(8 243)	(73 014)
<b>Profit for the year</b>		47 332	318 157

The notes on pages 5 to 18 form part of these financial statements.

**Statement of changes in equity for the year ended 31 December 2005**  
(In thousands of Slovak Crowns)

	Issued capital	Legal reserve fund	Other capital funds	Retained earnings/ (acc. losses)	Total
At 1 January 2004	1 163 083	18 352	79 616	(108 635)	1 152 416
Transfer to fund for expansion	-	-	107 626	(107 626)	-
Transfer to legal reserve fund	-	5 778	-	(5 778)	-
Donations	-	-	(9 269)	9 269	-
Profit for the year	-	-	-	318 157	318 157
At 31 December 2004	1 163 083	24 130	177 973	105 387	1 470 573
At 1 January 2005	1 163 083	24 130	177 973	105 387	1 470 573
Transfer to fund for expansion	-	-	232 587	(232 587)	-
Transfer to legal reserve fund	-	12 943	-	(12 943)	-
Donations	-	-	(3 000)	3 000	-
Profit for the year	-	-	-	47 332	47 332
At 31 December 2005	1 163 083	37 073	407 560	(89 811)	1 517 905

The notes on pages 5 to 18 form part of these financial statements.

**Cash flow statement for the year ended 31 December 2005**  
(In thousands of Slovak Crowns)

	2005	2004
<b>OPERATING ACTIVITIES</b>		
Cash receipts from customers	1 304 776	1 357 918
Cash paid to suppliers and employees	(1 030 526)	(841 054)
Cash generated from operations	274 250	516 864
Income tax paid	(105 000)	(41 695)
<b>Cash flows from operating activities</b>	<b>169 250</b>	<b>475 169</b>
<b>INVESTING ACTIVITIES</b>		
Acquisition of property, plant and equipment	(266 453)	(259 269)
Acquisition of intangible assets	(792)	(1 716)
Interest received	8 912	15 538
<b>Cash flows used in investing activities</b>	<b>(258 333)</b>	<b>(245 447)</b>
<b>FINANCING ACTIVITIES</b>		
Loan repayments	(74 755)	(76 826)
Interest paid	(11 131)	(14 127)
<b>Cash flows used in financing activities</b>	<b>(85 886)</b>	<b>(90 953)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(174 969)</b>	<b>138 769</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>661 979</b>	<b>523 210</b>
<b>Cash and cash equivalents at end of year</b>	<b>487 010</b>	<b>661 979</b>

The notes on pages 5 to 18 form part of these financial statements.

**Notes to the financial statements for the year ended 31 December 2005**

(In thousands of Slovak Crown)

## 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 air 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. As required by EUROCONTROL, the Company applies the "Principles for establishing the cost-bare for route facility charges and the calculation of the unit rates", dated November 2004. The Company applies the principles according to Regulation (EC) No 550/2004 of the European Parliament and of the Council of 10 March 2004 on the provision of air navigation services over a unified European air space, and has established a cost allocation system related to the main activities.

## 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 (IFRS) promulgated by the International Accounting Standards Board ("IASB") and with interpretations issued by the International Financial Reporting Interpretations Committee of the IASB ("IFRIC").

### 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 2006.

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.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are considered to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis and revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Interpretations and amendments to published standards effective in 2005

The following amendments and interpretations to standards are mandatory for the Company's accounting periods beginning on or after 1 September 2004:

- IFRIC 2, Members' Shares in Co-operative Entities and Similar Instruments (effective from 1 January 2005);
- SIC 12 (Amendment), Consolidation – Special Purpose Entities (effective from 1 January 2005); and
- IAS 39 (Amendment), Transition and Initial Recognition of Financial Assets and Financial Liabilities (effective from 1 January 2005).

Management assessed the relevance of these amendments and interpretations with respect to the Company's operations and concluded that they are not relevant to the Company.

Standards, interpretations and amendments to published standards which are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Company's accounting periods beginning on or after 1 January 2006 or later periods but which the company has not early adopted, as follows:

- IAS 19 (Amendment), Employee Benefits (effective from 1 January 2006). This amendment introduces the option of an alternative recognition approach for actuarial gains and losses for post-employment benefits. It may impose recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. This amendment is not relevant to the Company.
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006). The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss. The Company has not yet completed its analysis of the impact of the amendment.
- IAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006). This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Company believes that this amendment should not have a significant impact on the classification of financial instruments, as the Company should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. The Company has not yet completed its analysis of the impact of the amendment.
- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006). This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognized at their fair value and subsequently measured at the higher of: (a) the unamortized balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. This amendment is not relevant to the Company.
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006). These amendments are not relevant to the Company's operations as the Company does not have any operations that would be affected by the amendment.
- IFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006). The Company does not have any operations that would be affected by the new Standard.
- IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Company assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1.
- Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). As a complimentary amendment arising from IFRS 7 (see above), the Standard will require increased disclosure

in respect of the Company's capital. This amendment will require significantly more disclosures regarding the capital structure of the Company.

- Amendment to IAS 21 The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation (effective from 1 January 2006). The amendment clarifies in which circumstances a loan may form part of a reporting entity's net investment in a foreign operation, and the currency in which such an item may be denominated. The Company currently has no items comprising net investments in foreign operations that will be affected by the amendment.
- IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006). IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of IFRIC 4 on the Company's operations.
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006). IFRIC 5 is not relevant to the Company's operations.
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective from 1 December 2005). The Interpretation deals with obligations arising from the European Union Directive regulating the collection, treatment, recovery and environmentally sound disposal of waste equipment. The Company does not have any operations that would be affected by the Standard.
- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006). The Interpretation contains guidance on how an entity would restate its financial statements pursuant to IAS 29 in the first year it identifies the existence of hyperinflation in the economy of its functional currency. IFRIC 7 is not relevant to the Company's operations.
- IFRIC 8 Scope of IFRS 2 (effective from 1 May 2006). The Interpretation clarifies that the accounting standard IFRS 2 Share-based Payment applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration. IFRIC 8 is not relevant to the Company's operations.
- IFRIC 9 Reassessment of Embedded Derivatives (effective from 1 June 2006). The Interpretation clarifies that the treatment of an embedded derivative is assessed by the entity when the entity first becomes a party to the contract, and that reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise of cash deposits and petty cash.

#### **Trade and other receivables**

Trade and other receivables are stated at their cost less provision for bad and doubtful debts.

#### **Inventories**

Inventories, mainly spare parts and supplies, are stated at the lower of cost and 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
Building 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 are 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 from two to five years.

#### **Interest bearing loans and borrowings**

Interest bearing loans and borrowings are recognized at cost.

#### **Provision for retirement benefits (other long-term employee 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.

#### **Employee benefits – contributions for supplementary pension insurance**

Obligations for contributions to supplementary pension insurance 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

In thousands of SKK	Land and buildings	Plant and buildings	Assets under construction	Total
<b>Cost</b>				
At 1 January 2005	525 032	1 735 407	273 416	2 533 855
Additions	44 250	397 237	-	441 487
Disposals	(834)	(287 547)	(178 518)	(466 899)
At 31 December 2005	<b>568 448</b>	<b>1 845 097</b>	<b>94 898</b>	<b>2 508 443</b>
<b>Accumulated depreciation and impairment losses</b>				
At 1 January 2005	146 140	1 431 448	-	1 577 588
Charge for the year	14 659	150 929	-	165 588
Disposals	(834)	(287 056)	-	(287 890)
At 31 December 2005	<b>159 965</b>	<b>1 295 321</b>	<b>-</b>	<b>455 286</b>
<b>Net book value</b>				
At 1 January 2005	378 892	303 959	273 416	956 267
At 31 December 2005	<b>408 483</b>	<b>549 776</b>	<b>94 898</b>	<b>1 053 157</b>

## 3. INTANGIBLE ASSETS

In thousands of SKK	Software
<b>Cost</b>	
At 1 January 2005	246 262
Additions	788
Disposals	(111 420)
At 31 December 2005	<b>135 630</b>
<b>Accumulated depreciation</b>	
At 1 January 2005	237 513
Charge for the year	5 385
Disposals	(111 420)
At 31 December 2005	<b>131 478</b>
<b>Net book value</b>	
At 1 January 2005	<b>8 749</b>
At 31 December 2005	<b>4 152</b>

#### 4. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities as at 31 December 2005 and 2004 are attributable to the items detailed in the table below:

In thousands of SKK	Assets		Liabilities		Net	
	2005	2004	2005	2004	2005	2004
Property, plant and equipment	-	-	(6 623)	(12 594)	(6 623)	(12 594)
Inventories	5 752	5 729	-	-	5 752	5 729
Receivables	11 122	22 134	-	(430)	11 122	21 704
Provision for employee benefits	10 295	8 663	-	-	10 295	8 663
Payables	455	380	-	-	455	380
Deferred tax assets/(liabilities)	27 624	36 906	(6 623)	(13 024)	21 001	23 882
Set off of tax	(6 623)	(13 024)	6 623	13 024	-	-
Net deferred tax assets	<b>21 001</b>	<b>23 882</b>	-	-	<b>21 001</b>	<b>23 882</b>

The deferred tax assets as at 31 December 2005 have been calculated using a rate of 19 % (2004: 19 %).

#### 5. INVENTORIES

In thousands of SKK	2005	2004
Spare parts and supplies	48 342	47 530
Provision for slow-moving items	(30 273)	(26 852)
	<b>18 069</b>	<b>20 678</b>

#### 6. TRADE AND OTHER RECEIVABLES

In thousands of SKK	2005	2004
Trade accounts receivable	244 417	321 231
Provision for bad and doubtful debt	(67 265)	(97 616)
Advances to suppliers	6 534	1 314
Value added tax receivable	13 904	4 642
Other receivables and prepaid expenses	3 410	23 089
	<b>201 000</b>	<b>252 660</b>

#### 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 2004 and 2005 no changes occurred. As at 31 December 2005, the Issued capital was TSKK 1,163,083.

#### Other capital funds

The Supervisory Board decided on 24 May 2005 to transfer to Other capital funds an amount of TSKK 201,547 from the 2004 profit. On 14 June 2005, the Supervisory Board decided to transfer to other capital funds an additional TSKK 29,040 from the undistributed 2004 profit. The remuneration of the Supervisory Board represented the amount of TSKK 3,315. The remuneration was paid during the year 2005. The Supervisory Board also decided on May 2005, to provide financial donations in the amount of TSKK 2,000 and to paid donations in the total amount of TSKK 3,000. As at 31 December 2005, the Other capital funds were TSKK 407,560.

#### Legal reserve fund

The increase in legal reserve fund in amount of TSKK 12,943 was approved by the Supervisory Board on 24 May 2005. As at 31 December 2005, the Legal reserve fund was TSKK 37,073. This reserve fund is not available for distribution and should only be used as a reserve against future losses arising from business activities.

### 8. INTEREST BEARING LOANS AND BORROWINGS

In thousands of SKK	2005	2004
Investment loans from the European Investment Bank	142 873	217 628
Less: current portion	(71 436)	(72 543)
	<b>71 437</b>	<b>145 085</b>

Loans denominated in USD and EUR are repayable in sixteen semi-annual instalments from February 2000. As at 31 December 2005 the outstanding balance of loans denominated in EUR and USD was EUR 3,503,742 (2004: EUR 5,255,613) and USD 321,250 (2004: USD 481,875), respectively.

Terms and repayments of the non-current debt are as follows:

In thousands of SKK	Total	2006	2007
Secured bank loans:			
EUR - fixed from 4.23 % to 7 % p.a.	132 610	66 305	66 305
USD - fixed at 6.35 % p.a.	10 263	5 131	5 132
Total	<b>142 873</b>	<b>71 436</b>	<b>71 437</b>

Loans payable to the European Investment Bank of TSKK 142,873 (2004: TSKK 217,628) are guaranteed by the Government of the Slovak Republic.

### 9. PROVISION FOR RETIREMENT BENEFITS (OTHER LONG-TERM EMPLOYEE BENEFITS)

In thousands of SKK	2005	2004
Present value of retirement benefits	54 184	44 467

Under collective agreements with employees, the Company pays to employees certain retirement benefits. Each employee, who has been employed with the Company for 10 years or less, is eligible for a retirement benefit of 2 times the monthly salary and, if employed for more than 10 years this amount increases to 3 times the monthly salary.

The Company did introduce new benefit in Collective agreement 2005. It is understood by the Company and employees that the benefit is transitional for the period before new legislation on retirement of air traffic operator (RLP) become valid. Moreover the new benefit is contingent on the agreement between the employee and the Company. Therefore it does not create constructive obligation. The liabilities, past service and current service costs for this benefit have been therefore calculated only for periods until the expected introduction of new legislation in 2008. Past service costs related to this benefit are recognized immediately in 2005.

Movements in provision for retirement benefits:

In thousands of SKK	2005	2004
At 1 January 2005	44 467	36 244
Interest costs	1 956	1 867
Current service costs	2 785	2 985
Past service costs*	6 733	-
Actuarial (gains)/losses	1 668	4 391
Benefits paid	(3 424)	(1 019)
At 31 December 2005	<b>54 185</b>	<b>44 468</b>

\* influence from introduction of a new benefit

## 10. TRADE AND OTHER PAYABLES

In thousands of SKK	2005	2004
Trade accounts payable	7 026	21 456
Salaries, wages and social security payable	45 979	46 104
Employee income taxes	10 389	10 292
Accrued interest on loans and borrowings	2 737	4 163
Social fund (see below)	31 073	33 495
Other payables and accrued expenses	29 531	33 917
	<b>126 735</b>	<b>149 427</b>

Based on collective agreements with employees, the Company operates a defined contribution plan for endowment 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 2005, the Company contributed to the employees' endowment insurance an amount of TSKK 10,357 (2004: TSKK 10,558). In 2005, the Company also contributed from the social fund to the employees' supplementary pension insurance an amount of TSKK 89 (2004: TSKK 80).

## 11. PERSONNEL EXPENSES

In thousands of SKK	2005	2004
Wages and salaries	472 614	458 076
Legal social insurance	78 101	73 249
Provision for retirement benefits	9 717	8 223
Retirement benefits	3 424	1 019
Supplementary pension insurance	28 191	18 817
Social fund expense	13 296	14 667
Additional contribution to social fund	10 000	-
Severance payments	5 251	6 660
Remuneration of the Supervisory Board	6 034	4 644
	<b>626 628</b>	<b>585 355</b>

The average number of employees during 2005 was 460 (2004: 485) including 8 directors (2004: 8).

The Company contributes to supplementary pension insurance for employees. In 2005, the Company contributed TSKK 28,191 (2004: TSKK 18,897), representing 6 % for the air traffic controllers and 3 % for other employees from the gross salaries of employees for the period of January – Jun 2005 and 8 % for all employees for the period of July – December 2005. An amount of TSKK 28,191 (2004: TSKK 18,817) is recognized in the income statement as expense and an amount of TSKK 89 (2004: TSKK 80) was paid from the social fund.

There was an additional contribution to the social fund in the amount of TSKK 10,000 in the year 2005.

## 12. OTHER OPERATING EXPENSES

In thousands of SKK	2005	2004
EUROCONTROL membership fees	114 166	90 461
Telecommunication costs	37 211	33 558
Insurance	24 377	30 697
Spare parts and supplies	25 736	29 629
Meteorological services	26 500	26 500
Repairs and maintenance	25 496	25 631
Maintenance fees for technical software	8 864	26 060
Travel	14 659	17 346
Rent of premises	14 631	14 610
State air traffic inspection	239	2 000
Other services	22 759	26 872
Training	3 009	3 977
Provision for spare parts	593	4 966
Provisions and write-offs (write backs) of bad and doubtful debts	(19 966)	(1 723)
Other operating expenses	39 273	18 224
	<b>337 547</b>	<b>348 808</b>

Membership fees paid to EUROCONTROL increased in 2005. The contribution is calculated in advance and is based on certain factors such as GDP of the country and cost-base for route facility charges.

## 13. NET FINANCING COSTS

In thousands of SKK	2005	2004
Interest income	8 912	15 635
Interest expenses	(9 655)	(14 127)
Net foreign exchange losses	(9 647)	(18 246)
Total financing expenses	(19 302)	(32 373)
Net financing costs	<b>(10 390)</b>	<b>(16 738)</b>

## 14. INCOME TAX EXPENSE

In thousands of SKK	2005	2004
Current year tax expense	5 362	67 426
Deferred tax expense	2 881	5 588
Total income tax expense in income statement	<b>8 243</b>	<b>73 014</b>

Income taxes have been provided for at a rate of 19 % (2004: 19 %) of taxable income based on Slovak accounting and tax regulations and deferred tax at a rate of 19 % (2004: 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		2005		2004
Profit before tax		55 575		391 171
Income tax using the prevailing corporation tax rate	19%	10 559	19%	74 322
Non-deductible expenses	110%	61 266	19%	75 359
Non-taxable income	-150%	(83 222)	-11%	(45 178)
Temporary differences	35%	19 640	-8%	(31 489)
	<b>15%</b>	<b>8 243</b>	<b>19%</b>	<b>3 014</b>

## 15. RELATED PARTY TRANSACTIONS

During the year ended 31 December 2005, the Directors of the Company and members of the Supervisory Board received wages and salaries amounting to TSKK 21,805 (2004: TSKK 18,794) and TSKK 16,527 (2004: TSKK 9,268), respectively.

## 16. COMMITMENTS

### Capital commitments

As at 31 December 2005, the Company has entered into purchase agreements for property, plant and equipment totalling approximately TSKK 11,730 (2004: TSKK 34,000).

### Lease obligations

The Company entered into a future lease for office space effective from 2006. The minimum annual lease payments are TSKK 9,352.

### Endowment 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 for 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. 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.

### **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 2005:

In thousands of SKK	EUR	USD	other	SKK	Total
<b>Assets</b>					
Deferred tax asset	-	-	-	21 001	21 001
Trade and other receivables	171 261	1 536	-	28 203	201 000
Cash and cash equivalents	219	71	64	486 656	487 010
	<b>171 480</b>	<b>1 607</b>	<b>64</b>	<b>535 860</b>	<b>709 011</b>
<b>Equity and liabilities</b>					
Interest bearing loans and borrowings	132 610	10 263	-	-	142 873
Other non-current liabilities	-	-	-	635	635
Trade and other payables	3 153	394	-	177 372	180 919
Income taxes payable	-	-	-	(57 943)	(57 943)
	<b>135 763</b>	<b>10 657</b>	<b>-</b>	<b>120 064</b>	<b>266 484</b>
<b>Fair values</b>					

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





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