Annual Report 2006

Slovak Telekom

Contents

I. Slovak Telekom Group

Milestones of 2006

January

- T-Mobile Slovensko, a. s. launched UMTS third generation technology (3G) in Slovakia. Video-phoning was the first 3G application made available to customers.

February

- Slovak Telekom, a.s. (then Slovak Telecom, a.s.) entered the final phase of its preparations for rebranding – change of the business name and brand.

March

- Slovak Telecom, a.s. changed its business name to Slovak Telekom, a.s., launched the T-Com brand, and made other corporate identity changes in order to match the corporate identity of its majority shareholder, Deutsche Telekom AG.
- On the occasion of its corporate identity change, Slovak Telekom, a.s. doubled ST DSL access service transmission speeds and volumes. Under the new T-Com brand, the Company launched the Hlas cez Internet service (VoIP) and a new portfolio of high-speed Internet services. Slovak Telekom, a.s. also announced the expansion of its leisure-time service offer and preparations for the Triple play service launch.
- Slovak Telekom, a.s. introduced a new wholesale model: the ADSL Partner service, through which Internet service providers (ISPs) could start providing their services to end customers.
- Rádiokomunikácie, a branch of Slovak Telekom, a.s., launched the first digital radio broadcasting in the DRM system in Slovakia.
- Slovak Telekom, a.s. continues expanding Internet penetration in Slovakia by means of a new, national project of bringing the Internet to mothers' centres, where mothers on maternity leave can enhance their Internet and PC literacy.
- Slovak Telekom, a.s. was awarded the HR Oscar Award, granted by HR experts of Slovakia, for the electronic employee training project.
- T-Mobile Slovensko, a. s. extended its monthly programme offer to include equivalent programmes. These are selected programmes of the competing mobile operator which customers of T-Mobile Slovensko, a.s. can use under the same conditions as long as most original service parameters are retained. The Company also introduced BlackBerry to the Slovak market, a solution giving customers e-mail access anywhere and at any time.

April

- Slovak Telekom, a.s. marketed, under the T-Com brand, new calling plans: Doma Uni, and the innovative IP Office small business solution.
- Slovak Telekom, a.s. announced the third annual eTablo contest, and a prestigious national competition for teachers, Cena Slovak Telekom (ENG: Slovak Telekom Award).
- Slovak Telekom, a.s. won two first prizes in Podnikové médium roka 2005 (Corporate Medium of the Year 2005) in the categories of Podniková brožúra (Corporate Brochure) and Audiovizuálna prezentácia (Audio-visual Presentation). The Company also took the Grand Prix, Best Corporate Medium of the Year 2005, for its audiovisual contributions.
- Slovak Telekom, a.s. won awards in the advertising creativity contest Zlatý klinec 2006 (Golden Nail) for the T-Com rebranding campaign.
- The Board of Directors of Slovak Telekom, a.s. approved a short list of potential buyers of Rádiokomunikácie, o.z.
- T-Mobile Slovensko, a.s. launched new FIX calling plans, which combine advantages of prepaid cards and monthly post-paid programmes.
- The Annual General Meeting of Slovak Telekom, a.s. approved the Company's 2005 economic results and personnel changes in the corporate bodies.

May

- Under the T-Com brand, Slovak Telekom, a.s. introduced four new high-speed Internet programmes with no voice programmes.
- Slovak Telekom, a.s. terminated its general partnership with the ice-hockey Extraliga league after four years of cooperation.
- T-Mobile Slovensko, a.s. commenced the Number portability service, enabling customers of the mobile competitor to join T-Mobile with their original telephone number.

- The Slovak Telekom Group adopted the new Code of Conduct of Deutsche Telekom AG.
- A football magazine, futbal.sk, originated as part of the Internet portal www.zoznam.sk of Zoznam, s.r.o., Slovak Telekom's subsidiary.
- A decision of the Rada pre vysielanie a retransmisiu (Council for Broadcasting and Retransmission) on registering the retransmission services of Slovak Telekom, a.s. gave the Company the official right to provide television and radio programme services within the Slovak Republic.

June 2006
- Slovak Telekom, a.s. commenced the commercial operation of Music on Demand via the Internet under the T-Com brand. It also complemented the Internet service portfolio with the Pohoda 1000 programme. In cooperation with its subsidiary, T-Mobile Slovensko, a.s., it provided free wireless Internet access at all T-Mobile HotSpot locations during June and July.
- Slovak Telekom, a.s. awarded the most creative graduating students who participated in the eTablo contest.
- Slovak Telekom, a.s., under the T-Com brand, brought entertainment to the streets of Bratislava with its T-Com Fiesta.
- An interactive travellers' online magazine, dromedar.sk, emerged as part of the Internet portal www.zoznam.sk of Zoznam, s.r.o., Slovak Telekom's subsidiary.

July 2006
- Slovak Telekom, a.s. commenced its Triple play testing operation.
- The information available through the Info Asistent 12 111 line of Slovak Telekom, a.s. was expanded to include traffic information.
- Slovak Telekom, a.s. enabled customers to call from public pay phones using euro coins.

August 2006
- The jubilee year of the Okolo Slovenska (Around Slovakia) bicycle race was held under T-Com sponsorship.
- Slovak Telekom, a.s. reduced prices in an unbundling reference offer for local loops.
- T-Mobile Slovensko, a.s. increased the maximum speed of the Rýchly internet (Fast Internet) to 5.3 Mbps, also introducing optional HSDPA technology for the UMTS network. This add-on device enables the customer to connect a mobile telephone to the Internet at a rate of 3.6 Mbps.

September 2006
- Slovak Telekom, a.s. expanded T-Com voice services to include free calls within its own network. At the same time, the Company reduced the price of its T-Station service Hry pre rodinu (Games for family).
- Slovak Telekom, a.s. presented its Corporate Social Responsibility Report.
- The Slovak Telekom, a.s. transformation project, entitled eNGine, was nominated for the prestigious World Communication Award.
- The www.zoznam.sk portal reported more than a million unique visitors per month.

October 2006
- Slovak Telekom, a.s. offered Rodinný počítač (Family PC) for 1 Slovak crown to those interested in high-speed Internet.
- Slovak Telekom, a.s. was honoured at the Donor's Forum's Top Corporate Philanthropist event.
- D&AS Centrum (part of the Call Services, o.z. branch of Slovak Telekom, a.s.) was granted one of the most prestigious prizes, the Outstanding Achievement Award at the international conference "118 Awards".
- The 29th General Assembly of ETNO was held in Bratislava, organized and chaired by Slovak Telekom, a.s.
- T-Mobile Slovensko, a.s. enlarged its voice service portfolio to include the new Podnikateľ (Entrepreneur) monthly programmes, designed especially for freelancers and small enterprises.
- The www.zoznam.sk portal introduced the Slovak version of ICQ chat service to the Slovak Internet.

November 2006
- Slovak Telekom, a.s. and T-Mobile Slovensko, a.s. again supported the Hodina deťom (An Hour for Children) philanthropic project.
- Slovak Telekom, a.s. organised the 2nd annual Telekom Day students' conference.
- Rüdiger J. Schulz assumed the position of the Senior Executive Vice-President – COO at Slovak Telekom, a.s.
- Slovak Telekom, a.s. paid tribute to creative and inventive teachers in the Cena Slovak Telekom (Slovak Telekom Award) competition.
- T-Mobile Slovensko, a.s. and Telefónica O2 Slovakia signed a national roaming agreement.

- Slovak Telekom, a.s. as sole shareholder of T-Mobile Slovensko, a.s. effected personnel changes in the Board of Directors and Supervisory Board of this subsidiary.
- Slovak Telekom, a.s. conducted a customer satisfaction survey. The TRI*M 2006 index value again positioned the Company among top-rank European telecom operators, scoring excellent in both residential and business customer satisfaction.

December 2006

- Slovak Telekom, a.s. proved its number portability service within fixed networks by transferring the first of its customers' numbers to a competing operator's network.
- An Extraordinary General Meeting of Slovak Telekom, a.s. approved personnel changes in the Board of Directors and Supervisory Board.
- Slovak Telekom, a.s. presented its new web site design.
- Slovak Telekom, a.s. commenced Triple play commercial operation under the Magio product name.

Slovak Telekom Group

The Slovak Telekom Group comprises the parent company Slovak Telekom, a.s., (until 8 March 2006 Slovak Telecom, a. s.) and its subsidiaries T-Mobile Slovensko, a.s., RK Tower, s.r.o., Zoznam, s.r.o., Zoznam Mobile, s.r.o., TBDS, a.s. and Telekom Sec, s.r.o. The following branches are also part of the Slovak Telekom, a.s. company: Slovak Telekom, a.s., Rádiokomunikácie, o. z.; and Slovak Telekom, a.s., Call Services, o.z. and partnership Institute of NGN.

The Slovak Telekom Group, as the only provider of comprehensive telecommunications services in Slovakia, offers its customers fixed network services, mobile communication services, Internet access, Internet content, digital television, data services, and sale of terminal equipment, radio and television signal distribution, as well as commercial call centre services.

The strategy for Group's operations is to provide a broad array of modern and inter-complementary communications solutions based on state-of-the-art technologies, professional experience and specialised approach to the individual needs of the customers.

All information included in this Annual Report, which is presented in relation to the Slovak Telekom Group, relates to all companies forming the Group.

Corporate Identity

The Company, Slovak Telekom, a.s., has operated under its new business name since 8 March 2006. The products and services of fixed-line network are marketed under the T-Com brand, also visually showing its affiliation to the Deutsche Telekom Group. The magenta T is one of the strongest brands in the global telecommunications market and stands for top-quality modern telecommunications services in almost 30 countries around the world.

The objective of the 2006 corporate identity change was to endorse the Company's transformation to a next generation operator, capable of satisfying the communications needs of a 21st century customer. The new brand's market launch reflects the strategy of both Deutsche Telekom AG and Slovak Telekom, a. s. to support the development of broadband and IP-based products and services. As it changed its business name and corporate brand and launched its new brand, Slovak Telekom, a.s. introduced new and modern services to serve all its customers in their business and private lives.
The magenta T – an unmistakeable graphic sign of companies in the global group of Deutsche Telekom – is represented in the Slovak telecom market by two strong telecommunications operators – Slovak Telekom, a.s. and T-Mobile Slovensko, a.s. The magenta T symbolizes internationally compelling values, applied to both companies' operations: high quality of services provided, excellent customer care, and continual product innovation, aimed at making the life of customers better and more entertaining and enjoyable.

Vision of Slovak Telekom, a.s.

To be the most reliable and customer-friendly service company integrating the communications and information worlds, and to contribute to the positive development of Slovakia and the quality of life here.

Mission of Slovak Telekom, a.s.:

- To be personally responsible for each customer call, understand customer needs, deliver what we promise, and constantly improve services with the aim of being seen as the most affordable, reliable and innovative partner,
- to utilise know-how in integrating services as a benefit for customers, thus making their business and private lives easier,
- to provide state-of-the-art telecommunications infrastructure and products enabling business growth in the country and to improve the position of the Slovak Republic internationally,
- to be together responsible for the economic growth of the country,
- to attract, motivate and develop capable and committed employees and reward employees' performance.

Employees of the Slovak Telekom Group follow T-SPIRIT, the set of values identical for all companies forming the Deutsche Telekom Group:

- Superior value
- Passion for the customers
- Innovation
- Respect
- Integrity
- Top excellence

The Deutsche Telekom Group operates on international markets and in a multicultural environment. Shared values bind the individual subsidiaries together. In their work, employees of the Deutsche Telekom Group put the customer's needs first, with all other aspects subordinated to those needs. Innovation and creativity in solutions drive the Group forward, ensuring its long-term prospects and position in the market.

Slovak Telekom Group Profile

The Slovak Telekom Group comprises the following companies and partnership:
Slovak Telekom, a.s.
T-Mobile Slovensko, a.s.
RK Tower, s.r.o.
TBDS, a.s.
Telekom Sec, s.r.o.
Zoznam, s.r.o.
Zoznam Mobile, s.r.o.
Institute of NGN

Branches of Slovak Telekom, a.s. :
Rádiokomunikácie, o.z.
Call Services, o.z. (until 15 May 2006 Commercial Call Centre, o.z.)

The Slovak Telekom Group consists of strong market players that are leaders in their fields. The Group's goal is to provide comprehensive communications services for residential as well as business customers. In doing so, the Group achieves synergy effects with its subsidiaries in utilising technologies, cooperating closely in designing tailor-made customer solutions and in developing new products and services.

Slovak Telekom, a.s.

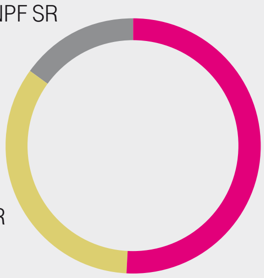
Slovak Telekom, a. s., (until 8 March 2006 Slovak Telecom, a.s.) is a dynamically developing company with many years' tradition in the Slovak telecommunications market. It is also the leader in the provision of modern telecommunications services in Slovakia. It owns and operates a telecommunications network, which covers the entire territory of the Slovak Republic, providing national and international voice services and a wide portfolio of data services. Slovak Telekom, a.s. is a leader in the provision of broadband Internet access and a dynamically developing operator providing services in the field of Internet entertainment and IP TV services. Upon completing network digitalisation by means of the NGN technology, Slovak Telekom, a.s. has become one of the major IP NGN network operators worldwide among fixed network operators.
The Company is part of the multinational Deutsche Telekom Group (Frankfurt, Amtlicher Handel: DTE/NYSE: DT). Deutsche Telekom AG is the majority shareholder of Slovak Telekom, a. s., with a 51% stake. The Slovak Republic, represented by the Ministry of Transport, Posts and Telecommunications of the Slovak Republic, is the owner of 34% of shares (MTPT SR) and the National Property Fund of the Slovak Republic holds 15% of shares (NPF SR).
Slovak Telekom, a. s. owns 100% of the shares of T-Mobile Slovensko, a. s., which provides a wide portfolio of mobile communication services. T-Mobile Slovensko, a.s. belongs to the T-Mobile International, division one of the major mobile communication operators worldwide.
T-Com is a brand of Slovak Telekom, a. s. for the provision of fixed network products and services.

Registered offices of the Company:
Námestie slobody 6, 817 62 Bratislava
Legal form:
joint-stock company
Date of incorporation:
1 April 1999

Principal business activities of the Company:

- transmission, broadcasting and reception of radio, television and other communication signals for statutory operators and operators holding relevant licences,
- provision of telecommunications and radio-communication services against payment (transmission, processing, creation and mediation of information) for individuals and legal entities,
- establishment, operation, construction, maintenance, and servicing of telecommunications facilities, networks, and information technologies owned by other entities under concluded contracts,
- preparation and updating of information databases for information systems in the telecommunications sector,
- publishing, distribution and sale of directories of subscribers of individual telecommunications services (on various media),
- connection of a specific part of the public telecommunications network to the international telecommunications network, concluding of international agreements in telecommunications related to the business activities of Slovak Telekom, a.s., and proposing prices and tariffs for domestic and international services, including billing and clearing thereof.

Shareholder Structure of Slovak Telekom, a.s.



T-Mobile Slovensko, a.s.

T-Mobile Slovensko, a.s. is a leading telecommunications company providing mobile voice and mobile data communications services in Slovakia. The sole owner of T-Mobile Slovensko, a. s. is Slovak Telekom, a. s., a subsidiary of Deutsche Telekom AG.
As of 31 December 2006, T-Mobile Slovensko, a.s. provided its services to 2.2 million customers.
T-Mobile Slovensko, a.s. was the first mobile operator to introduce multimedia messaging (MMS) service, as well as the EDGE technology and BlackBerry solution in Slovakia, and to launch the commercial operation of the UMTS third generation network. In 2005 T-Mobile Slovensko, a.s. was the first mobile operator in the world to have launched the FLASH-OFDM mobile data technology in a national operation, based on which it provides its customers with the Rýchly internet service (Fast Internet), by far the fastest mobile broadband Internet access available in Slovakia.
T-Mobile Slovensko, a.s. is the sole mobile operator in the Slovak Republic providing its customers with mobile Internet access over four high-speed data transfer technologies – GPRS/EDGE, Wireless LAN (Wi-Fi), UMTS FDD/HSDPA and FLASH-OFDM.
T-Mobile Slovensko, a.s. is the leader in providing telecommunications services in the most demanding segment of business customers, both in scope and quality of services. Eight of the ten largest banking institutions in Slovakia utilise comprehensive telecommunications service solutions from T-Mobile.
Furthermore, T-Mobile Slovensko, a.s. is the operator with the largest number of roaming partners. Customers can use roaming services in the networks of 295 mobile operators in 188 countries around the world, and GPRS and MMS roaming with 126 GSM operators in 69 countries worldwide.

Registered offices:
Vajnorská 100/A, 831 03 Bratislava
Legal form:
joint-stock company
Date of incorporation:
16 December 1996

Principal business activities of the company:

- establishment and operation of public mobile telecommunications networks over the frequencies assigned under the Licence of the Telecommunications Office of the Slovak Republic,
- provision of a public mobile telephone service via mobile public telecommunications networks referred to in the previous

paragraph,

- establishment and operation of a public data packet-switched network,
- provision of a public data service via public telecommunications networks,
- establishment and operation of a public mobile telecommunications network, which is designated as the third generation network and complies with the UMTS standards, over frequencies assigned under the Licence of the Telecommunications Office of the Slovak Republic,
- establishment and operation of a fixed telecommunication network for the purposes of the interconnection or connection of facilities of the third generation mobile network,
- provision of public mobile telephone service and full scope of data and multimedia services via the third generation mobile network,
- information society services,
- installation and repair of telecommunications facilities connected to the unified telecommunications network,
- advisory activities in the area of the public mobile cellular radiotelephone network,
- consultancy in the area of the public packet network for data transmission.

Shareholder Structure

100 % of shares owned by Slovak Telekom, a.s.

RK Tower, s.r.o.

Slovak Telekom, a.s. founded its subsidiary RK Tower, s.r.o. in 2002 as part of restructuring the branch Rádiokomunikácie, o.z. Activities of RK Tower, s.r.o., are focused mostly on the leasing of premises at owned sites (towers, masts, buildings etc.).

Registered offices:
Cesta na Kamzík 14, 831 01 Bratislava
Legal form:
limited liability company
Date of incorporation:
11 March 2002

Principal business activities of the company:
- installation, maintenance and repair of telecommunications facilities,
- purchasing activities related to real estate administration,
- design and optimisation related to information technologies, their development and implementation,
- automated data processing.

Ownership Structure:
Slovak Telekom, a.s. is the sole owner of the company.

TBDS, a.s.

The company was established in April 2005 for the purposes of conducting business in the field of the provision of electronic communications services.

Registered offices:
Cesta na Kamzík 14, 831 01 Bratislava
Legal form:
joint-stock company
Date of incorporation:
11 June 2005

Principal business activities of the company:
- installation, maintenance and repair of telecommunications facilities,
- purchasing activities related to real estate administration,
- proposals and optimisation related to information technologies, their development and implementation,
- automated data processing.

Shareholder Structure
100 % of shares owned by Slovak Telekom, a.s.

Note: The company reported no business activity in 2006.

Telekom Sec, s.r.o.

The company was established by a Memorandum of Association dated 22 September 2006 in the wording of Amendment No. 1 dated 23 October 2006.

Registered offices:
Kukučínova 52, 831 03 Bratislava
Legal form:
limited liability company
Date of incorporation:
25 October 2006

Principal business activities of the company:
- automated data processing,
- mediation of services in the area of information technologies,
- information technology service – licensed software installation and configuration,
- technical and organisational arrangement of seminars, courses, conferences, and training courses,
- software provision – sale of ready-made programmes, based on licensing,
- software systems maintenance,
- design and optimisation related to information technologies,
- installation of structured cabling and computer networks.

Ownership Structure:
Slovak Telekom, a.s. is the sole owner of the company.

Note: The company reported no business activity in 2006.

Zoznam, s.r.o.

Zoznam, s.r.o. is the operator of the most visited Internet portal in Slovakia, www.zoznam.sk. It specialises in Slovak Internet website search, also offering Internet users everything the Slovak Internet can offer, all in a transparent form. Therefore Zoznam.sk today offers over 40 on-line products. The most important products of the Zoznam.sk portal include a news server (Bleskovky.sk), specialised magazines (Lesk.sk, Mojdom.sk, Dromedar.sk, oPeniazoch.sk, Auto.Zoznam.sk), and the freemail service Mail.Zoznam.sk. A catalogue of companies is a key Zoznam.sk service, enabling small businesses to present themselves and their contact information professionally on the Internet.
An independent audit by Taylor Nelson Sofres in November 2006 found that close to 51% of Slovak Internet users visited Zoznam websites, products and sections at least once. A total of 1,319,285 unique visitors visited the pages of Zoznam and its products during the mentioned period.

Registered offices:
Viedenská cesta 3-7, 851 01 Bratislava
Legal form:
limited liability company
Date of incorporation:
1 January 1998

Principal business activities of the company:
- provision of information and advertising services by means of computer technology,
- advertising and promotional activities,
- advisory activity within the relevant scope of business.

Ownership Structure:
Slovak Telekom, a.s. is the sole owner of the company.

Zoznam Mobile, s.r.o.

Registered offices:
Viedenská cesta 3-7, 851 01 Bratislava
Legal form:
limited liability company
Date of incorporation:
30 September 2002

Principal business activities of the company:
- advisory and consultancy activity in commerce, advertising, software, automation, electrical engineering and informatics,
- advertising and promotional activities,
- market research and public opinion polling,
- graphic design production,
- automated data processing.

Ownership Structure:
Slovak Telekom, a.s. is the sole owner of the company.

Slovak Telekom, a.s. Rádiokomunikácie, o.z.

The principal business of the branch Rádiokomunikácie, o. z. is the nationwide, regional and local broadcasting of television and radio signals for public service and commercial stations. Its activities include core and support activities.

The core activities comprise:
- radio transmission broadcasting,
- television transmission broadcasting,
- data transmission,
- satellite broadcasting.

Supplementary services the branch provides include design planning for radio-communication technologies and antennae system steel support structures. A specific element of the business is onsite measurements enabling the assessment of the projected and actual coverage of a given area by television and radio signal. Besides maintenance and installation of its own radio-communications technologies, the branch Slovak Telekom, a.s., Rádiokomunikácie, o. z. also produces basic radio-communication components, mostly for the construction of television transceivers.

Vacant premises at radio-communication sites located throughout the territory of Slovakia are leased to third parties on a commercial basis. The service enables interested parties to position their radio-communication facilities at more than 700 sites in suitable geographic locations. Support activities cover two basic areas:

- engineering and design planning activity, special installation and production of radio-communication components,
- leasing of premises at radio-communication sites.

As part of the overall restructuring of Slovak Telekom, a.s., and the strategy to conduct business only in core business activities, all Slovak Telekom, a.s. shareholders committed to support gradual restructuring and sell-off of Rádiokomunikácie, o.z. Cooperating with a consulting firm, Slovak Telekom, a.s. launched Sale of Rádiokomunikácie, o.z. project in June 2004. This process is administered by a Steering Committee, comprising representatives of both of the shareholders and of Slovak Telekom, a.s. Members of the Board of Directors and Supervisory Board, including Slovak Telekom, a.s. shareholders' representatives, are regularly informed of the entire process and international tender. The Board of Directors of Slovak Telekom, a.s. approved a short list of five potential buyers of Rádiokomunikácie, o.z. proposed by the consultants in late April 2006. The selected bidders were granted access to the data rooms as of 2 May 2006 to carry out due diligence in Rádiokomunikácie, o.z., which finished in late May 2006. Subsequently, Slovak Telekom, a.s. in cooperation with participating investors prepared the binding Transaction documentation. The investors concerned submitted their binding bids on 3 July 2006. An overall evaluation by the external consultant Wood & Company was submitted to the Steering Committee members on 10 July 2006.

Slovak Telekom, a.s. Call Services, o.z.

The branch of Call Services, o.z., (until 15 May 2006 Slovak Telekom, a.s., Commercial Call Centre, o.z.) was established in January 2005. It arranges comprehensive outsourcing services, i.e. lease of agent seats, premises, lines, training of call centre agents, daily, weekly and monthly reporting, and call recording. The branch provides its services in fourteen languages for clients in Slovakia and abroad, and aims to expand its operations into other Central and Eastern European countries.

The core activities comprise:
- outbound services – active contacting of clients by telephone,
- inbound services – information lines, helpdesks, ordering lines, freephone lines,
- back-office services – processing and storing of applications, correspondence and surveys,
- advisory and consultancy services – selection of an appropriate client database, drafting of a telephone conversation script, determining the most appropriate time for contacting clients, selection of the necessary number of agents and their training, reporting and statistics format design.

Membership and cooperation with Slovak associations by profession and industry

Slovak Telekom, a.s. is an active member of the following organisations operating in the field of information and communication technologies and business development focused on activities supporting activities in the development of an information society:

- Podnikateľská aliancia Slovenska – Centrum pre hospodársky rozvoj (The Business Alliance of Slovakia – Centre for Economic Development),
- Slovenská spoločnosť pre zahraničnú politiku (Slovak Foreign Policy Association),
- Fórum pre komunikačné technológie (Communications Technologies Forum),
- IT Asociácia Slovenska (IT Association of Slovakia),
- Slovenská asociácia pre elektronický obchod (Slovak Association of Electronic Commerce),
- Slovenská obchodná a priemyselná komora (Slovak Chamber of Commerce and Industry),
- Americká obchodná komora (American Chamber of Commerce),
- Slovensko-nemecká obchodná a priemyselná komora (Slovak – German Chamber of Commerce and Industry),
- Spoločnosť pre projektové riadenie (Project Management Association of Slovakia),
- Zväz zamestnávateľov v doprave, poštách a telekomunikáciách (Union of Slovak Transport, Post Offices and Telecommunication Employers),
- Medzinárodný klub (International Club),
- Klub Hospodárskych novín (Hospodárske noviny Daily Club),
- IT Valley,
- Asociácia pre prenositeľnosť čísla (Number Portability Association),
- Klub firemných donorov (Corporate Donors Club),
- Business Leaders Forum,
- Slovenská asociácia pre káblové telekomunikácie (Slovak Association for Cable Communications),
- Slovenská asociácia finančníkov (Slovak Association of Finance Officers).

Involvement in international organisations

Slovak Telekom, a.s. is represented in the International Telecommunications Union (ITU), where it is a member of the standardisation, radio-communications and development sector.
Slovak Telekom, a.s. is a shareholder in EURESCOM (European Institute for Research and Strategic Studies in Telecommunications) and a member of the following organisations:

- ETNO (European Telecommunications Network Operators Association)
  In 2006, Pavol Kukura, representative of Slovak Telekom and its Executive Vice-President for Strategy and Regulatory Affairs, was the Chairman of the ETNO General Assembly held in Bratislava on 26-27 October 2006.
  ETP (European Telecommunications Platform)
- ETIS (E- and Telecommunications Information Services)
- ETSI (European Telecommunications Standards Institute)

Letter to Shareholders

Miroslav Majoroš, Chairman of the Board of Directors and President/CEO

Dear shareholders,

This Annual Report of our company for 2006 presents you with another very successful milestone in the progress of Slovak Telekom, a.s., as well as of all Slovak Telekom Group companies.
It is my honour to inform you that all tasks assigned to us by the Board of Directors in the form of key indicators have been fulfilled, and some even exceeded.

In 2006, consolidated revenues of Slovak Telekom Group reached SKK 30.5 billion, representing a 4.5% increase against 2005. Despite ever increasing competition, the Group successfully retained its leading position on the market, increasing its share to 51%.*

T-Mobile Slovensko, a .s. continued to grow, and compared to 2005 increased its revenues by 9.4%, a faster growth than the year-over-year growth of the telecommunications market as a whole. On the other hand, fixed line revenues decreased by only 1.2% thanks to the increase of non-voice services, mainly Internet, and services provided to other operators.

Again in the past year, the entire Slovak telecommunications market witnessed very dynamic development. Competition increased, which brought customer benefits not only in the form of new products and services but also lower prices. As of year-end, 11 alternative operators had interconnected with the network of Slovak Telekom, a.s., and we expect further interconnection requests, mostly from regional operators. 2006 was also the year of number portability: both mobile operator and fixed network clients who concluded contracts with our companies could retain their telephone number when changing their telecommunications service provider.

Among the most significant telecommunications market growth factors in 2006 was mobile communication reaching 96%, penetration at year-end Internet services in the form of broadband fixed as well as mobile access, and Internet content services along with IP-based telephony.

In the last year, Slovak Telekom, a.s. launched new optional calling plans for residential customers, featuring discounted calls to mobile networks, and calls within the home network free of charge, also enabling the client to select one number in the network of Slovak Telekom, a.s. for unlimited calls. The popularity among customers of optional calling plans proves the products are tailor-made to match clients' everyday needs. Today, optional calling plans make up almost 83% of all residential customer monthly plans. Slovak Telekom, a.s. also launched a new type of voice services: – Hlas cez internet (Voice over the Internet), which became within a very short time an attractive alternative to conventional voice services.

2006 can surely be called an Internet boom year. Broadband ADSL connectivity grew exponentially, over 182,000 ADSL connections having been registered by year-end, with ADSL technology available to more than 3.8 million inhabitants in 800 municipalities. In Slovakia as elsewhere, the key factor to further increase of Internet penetration is attractive content and therefore the company improved its offering of films, games, music and other services through the T-Station portal. Zoznam.sk was among the most popular and most frequently visited portals. In September the visit count exceeded 1,000,000. Zoznam.sk and its products were used at least once per month by more than half of Slovakia's internet population.

The highlight of our efforts throughout the year to bring customers truly interactive entertainment content was the introduction of MAGIO, a unique combination of digital TV, broadband Internet access and IP-based telephony.
MAGIO is a true milestone in the life of our company, as it clearly underscores our strategy to become a key player in the field of multimedia entertainment for the general public.

For our corporate clients we extended our service portfolio to include IP technology products, offering very practical and attractive solutions to match the needs of small enterprises and sole proprietors. Use of tailor-made communications solutions built around virtual private networks in the segment of medium and large corporations continued to grow.

In the past year, our revenues from services to other operators rose. This can be attributed mainly to the new ADSL access wholesale model for resale of the service to other operators, as well as provision of voice service transit to international VoIP operators.

The TRI*M Index is an objective internationally recognised criterion of customer satisfaction with a company's services. We are immensely proud to have surpassed our customer satisfaction success of the preceding year, reaching 73 percentage points, which moved us to the absolute top of the list of European fixed network operators. The achievement reflects the efforts of all employees of Slovak Telekom, a.s., striving to provide the customer with top quality service.

In mobile communication, via subsidiary T-Mobile Slovensko, a.s. we brought our customers new price plans, enabling them to combine benefits of a prepaid card and monthly price plan. We increased the attractiveness of our family segment services, and belonging to the international T-Mobile group enabled our customers, while on holiday, to be in touch with their nearest and dearest or business partners free of charge.
The value of customers' ever-growing interest of in mobile data services was acknowledged by extending service coverage for Rýchly internet (Fast Internet) to 70% of Slovakia's populace, as well as increasing the transmission rate, thanks to which the service has become the fastest mobile broadband Internet connection in Slovakia.
Sales of mobile Internet music, film and sports events content grew significantly as well.
In 2006, T-Mobile Slovensko, a.s. offered customers a new dimension in mobile communications. The company became the first operator in Slovakia to launch commercially the 3G technology UMTS FDD, enabling customers to communicate not only by voice but also via picture on the mobile phone display.
T-Mobile Slovensko, a.s. last year also became the first mobile operator on the market to offer the BlackBerry solution, designed predominantly for business customers and providing highly convenient mobile access to email communication, the Internet, contact directory and task list.

Also in the last year, Rádiokomunikácie, a branch of our company, continued to provide a broad array of services in the area of TV and radio signal broadcasting, retaining high efficiency and quality of provided services. Our company's revenues from these services reached almost SKK 1 billion.

The activities of our Call Services branch last year proved to be an effective tool for improving customer care and sales volume, covering not only our company's needs but also those of other businesses in the banking, energy, automotive and entertainment industries. Revenues of Call Services, o.z. reached almost SKK 585 million.

From 8 March 2006, our company has operated under a new business name, Slovak Telekom, with new corporate identity visual components. The company communicates its products and solutions to customers under the T-Com brand. The new corporate identity has helped us not only visually integrate into Deutsche Telekom Group, but to enhance our marketing and corporate communication. At year-end, spontaneous awareness of T-Com brand had reached over 80%.
In line with our long-term corporate strategy, to become a next generation operator able to react flexibly to market changes and new customer requirements while maintaining effectiveness, in 2006 we continued our company's transformation.
Applying process-driven company principles enabled us to increase our speed of response in reacting to customer requirements, to decrease internal costs and improve quality of services provided.
Pursuant to our strategy to focus on core business activities, our company last year concluded three major outsourcing contracts. Now, our bill printing and distribution and real estate management functions are conducted by carefully selected external companies.

Our business activities in the last year were in full accord with current national and international legal regulations and principles. In addition, our company acted in compliance with the Code of Conduct, which serves to guarantee that our conduct in respect to customers, vendors, partners and also own employees is always ethical and fair. Slovak Telekom Group companies applied corporate social responsibility principles in their activities, as reflected in our direct engagement in selected philanthropic, sponsorship and volunteering activities.

The results achieved in 2006 reflect the successful business strategy of the entire Slovak Telekom Group's activity on the telecommunications market. Mutual cooperation between individual Group companies, while respecting relevant legislation, helped us better and more comprehensively satisfy our customers' needs while also increasing efficiency.
Again in 2007, escalating competition and dynamic development in the telecommunications market will challenge us to continue restructuring Slovak Telekom, a.s., but even more to increase the quality of services provided by all Group companies. It is uncompromising service quality in an ever-increasing competitive environment, levelling prices and technology, which today is the most important factor in customer satisfaction. I am convinced that in 2007 our comprehensive offering of state-of-the-art telecommunications services, and high-quality customer care, will deepen our customers' satisfaction.

Miroslav Majoroš
Chairman of the Board of Directors and President / CEO

*Presented figures are pro forma consolidated financial results which include results of discontinued operations. In the IFRS financial statements are these results reported separately in the part describing discontinued operations.

Executive Management Board of Slovak Telekom Group

Ing. Miroslav Majoroš, Chairman of the Board of Directors and President/CEO

Born in 1959. Obtained university education at the Faculty of Electronics and Informatics at the Slovak University of Technology in Bratislava and during his professional career supplemented his education through management education programmes at the Harvard Business School and Stanford Graduate School of Business.
After completing his studies in 1983 he worked at the Slovak television broadcasting company, where he held several positions, in 1993 being appointed to head the company. Over the years 1998 – 2000 he was the general manager of IBM Slovakia and from 2000 to 2002 was the general manager of IBM Czech Republic and Slovakia.
He has been company President/CEO and a Member of the Board of Directors at Slovak Telekom, a.s. since 2003. In 2005 he was elected Chairman of the Board of Directors. Concurrently he is a member of the Board of Directors of the subsidiary T-Mobile Slovensko, a.s. Miroslav Majoroš is a member of the board of directors and a delegate of the Association of Delegates of Slovak Chamber of Commerce and Industry, a member of the Policy Board of the Business Alliance of Slovakia, and a co-chairman of the working group for regional policy and development in the National Convention on the EU in the Slovak Foreign Policy Association. He is a member of the Parliamentary Commission for Transport, Posts, Telecommunications and Informatisation and of the Parliamentary Committee for Economy Policy, Privatisation and Business, and is a member of the board of trustees of the IT Association of Slovakia.

Szabolcs Gáborjáni-Szabó, CFA
Member of the Board of Directors and Senior Executive Vice-President for Finance / CFO

Szabolcs Gáborjáni-Szabó was born in 1970. He studied mathematics and computing science at the Eötvös Loránd University in Budapest and at the same time economics at the Faculty of Management at the University of Economic Sciences in Budapest. In 2000 he gained the title CFA (Chartered Financial Analyst) at the CFA Institute (previously known as the AIMR – American Institute for Management and Research). His professional career began at the Hungarian Commercial and Credit Bank – K&H Bank, in the Special Project Financing Department. In 1995 – 1996 he worked at the Budapest Derivatives Exchange and from 1996 worked in the financial field in the company Matáv and its subsidiaries, holding, among others, the position of deputy manager of the controlling division (from 1999 to 2001) and manager of the Group Treasury Branch (from 2001 until moving to ST). He is a Member of the Board of Directors of Slovak Telekom, a.s., a member of the Board of Directors of T-Mobile Slovensko, a.s., and a member of the board of directors of TBDS a.s.

Dipl. Ing. Rüdiger J. Schulz*
Senior Executive Vice-President for Sales and Operating Activities / COO

Born in 1959. He studied electrical engineering at the University of Hamburg. He also focused on telecommunications, and later added business management study at the university in Koblenz. His professional career began with service in the German navy as chief engineer responsible for logistics, technical operations and ship-fitting. R. J. Schulz joined the Deutsche Telekom Group in 1992. In the beginning he was responsible for technology platforms, and gradually assumed responsibility in marketing and sales activities. In 1996 he assumed the position of senior executive vice-president of DT's Business Customer Branch Office in Hannover, and from 1999 he was also responsible for residential customers. During 2002 – 2006 he was senior executive vice-president for marketing and sales to business customers of T-Com throughout north-west Germany. In 2005 and 2006 he acted as executive vice-president for T-Systems Business Services clients in north-east Germany. He joined Slovak Telekom, a.s. on 22 November 2006, taking over the position of Senior Executive Vice-President for Sales and Operating Activities (COO) and is a member of the Executive Management Board.
*Until 21 November 2006 the position of Senior Executive Vice-President for Sales and Operating Activities / COO had been held by Dipl. Ing. Herbert Müller.

PhDr. Anna Hudáková
Executive Vice-President for Human Resources / CHRO

She was born in 1959 in Košice, Slovakia. At the Pavel Jozef Šafárik University in Prešov, Slovakia, she specialised in the study field adult education and training, and supplemented her education through further education at home and abroad, for example, in the field of human resources management, managerial skills, finance and accounting for managers operating in the non-finance sector. Her career began in 1983 at the Slovak Academy of Sciences in Košice, later working as a historian in the East Slovakia Museum in Košice. From 1992 she worked as business manager at Coca Cola Amatil Slovakia, where in 1995 she became the manager for human resources. In May 1998 she became the human resources manager for Slovakia and the Czech Republic in the company Slovak International Tabak, a. s./Reemtsma Hamburg, were she was a member of the management.
Since January 2001 she has worked at Slovak Telekom, a. s. where she holds the position of Executive Vice-President for Human Resources / CHRO. She is at the same time president of the Slovak Association for Human Resources Management and Development.

Igor Hurčík
Executive Vice-President for Information Technology / CIO

Born in 1951, he studied law and economics at the University of Zürich. In 1975 he began his career at Citibank Zürich, working from 1979 until 1982 at Credit Suisse, Zürich, in the treasury section. In the years 1982-1989 he held top managerial positions at various subsidiaries of Merrill Lynch & Co. Inc. in London and New York. The next focus of his managerial career, from 1989, was Continental Bank, Chicago, where he worked until his return to Slovakia in 1992. In 1992 – 1994 he was one of the members of the founding committee of the mortgage bank Prvá stavebná sporiteľna, a. s. in Bratislava, holding the functions of CFO, CIO and COO. From 1995 to August 1997 he worked at the Živnostenská banka in Prague as a member of the board of directors, CFO and CIO.Before moving to Slovak Telekom, a. s., he was the manager of the financial consulting services & business development department at Deloitte & Touche Central Europe, Bratislava. Since February 2004 he has held the position of Executive Vice-President for Information Technology at Slovak Telekom, a. s.

Ing. Pavol Kukura, PhD.
Executive Vice-President for Strategy and Regulatory Affairs / CSRO

Born in 1960, he graduated in 1983 from the Electro-Technical Faculty of the Slovak University of Technology. Until 1993 he worked at the Department of Telecommunications of the Faculty of Electronics and Informatics of the Slovak University of Technology, firstly as a postgraduate student and later as an assistant professor. He gained his PhD in the field of digital telecommunications networks in 1993. While at university, he worked in 1991 at the technical university RWTH Aachen, subsequently in 1992 – 1993 at the research centre of SEL Alcatel in Stuttgart. Over the years 1994 – 1996 he was the technical manager of the American telco AT&T in Slovakia, moving in 1996 to become the technical and later business manager of Lucent Technologies Slovakia until 2000. Then, until September 2003, he was the manager of the consultancy firm A1 Consulting, advising in the field of telecommunications operator strategy, telecommunications legislation and licensing policy. He has worked in the position of Executive Vice-President for Strategy and Regulatory Affairs at Slovak Telekom since October 2003. Last year he was also the Chairman of the General Meeting of European Telecommunications Network Operators' Association.

Ing. Róbert Chvátal
General Manager of T-Mobile Slovensko, a.s.

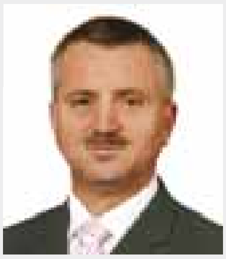
Born in 1968, he graduated in 1992 from the University of Economics in Prague. During his studies he was president of the international student organisation AIESEC for Czechoslovakia. He extended his education during his professional career through management education programmes at Harvard Business School and Stanford Graduate School of Business.
After completing his studies he began his career at the marketing department of Procter & Gamble in the Czech Republic, from where he moved to become marketing director at COTY / Margaret Astor. In 1997 he began work at the company RadioMobil, a.s., first as marketing director and later becoming a member of the board of directors. He became the general manager of EuroTel Bratislava, a.s. in May 2002. Under his management the Slovak mobile phone operator in May 2005 was rebranded and incorporated into the international T-Mobile Group. Robert Chvátal has been a member of the Board of Directors of the company T-Mobile Slovensko, a.s. since 31 December 2004.

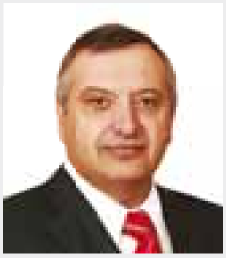
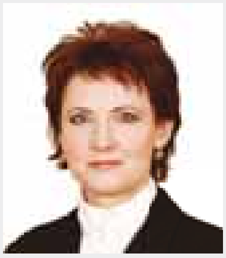
Board of Directors of Slovak Telekom, a.s.

Ing. Miroslav Majoroš	**Chairman**
Ing. Jaroslav Volf	**Vice-Chairman as of 6 December 2006**
Horst A. Hermann	**Member**
Dr. Ralph Rentschler	**Member**
Szabolcs Gáborjáni-Szabó, CFA	**Member**
Ing. Ivan Doletina	**Member as of 6 December 2006**
Ing. Vladimír Zeman	**Member as of 6 December 2006**
Ing. Štefan Bugár	**Vice-Chairman until 6 December 2006**
Ing. Gabriela Vavríková	**Member until 6 December 2006**
Ing. Peter Stropko	**Member until 28 April 2006**
Ing. Marián Múdry	**Member as of 28 April 2006 until 6 December 2006**





Supervisory Board of Slovak Telekom, a.s.

Siegfried Pleiner	**Chairman as of 6 December 2006**
Pavol Dlhoš	**Vice-Chairman as of 6 December 2006**
Anton Štefko	**Member as of 6 December 2006**
Ing. Jiřina Perényiová	**Member as of 6 December 2006**
Dr. Albert Matheis	**Member**
Ing. Pavel Kyman	**Member**
Ing. Ľudovít Hintoš	**Member**
Ing. Jozef Opát	**Member**
Regine Büttner	**Member as of 28 April 2006**
Ing. Martin Velecký	**Chairman until 6 December 2006**
Dr. Frank – Reinhard Bartsch	**Vice-Chairman until 28 April 2006**
Dr. Hans Peter Engel	**Member until 6 December 2006**
JUDr. Eleonóra Valentová	**Member until 6 December 2006**
Ing. Alojz Glinský	**Member until 6 December 2006**

Corporate Governance

As a shareholder, or business partner in its subsidiaries, Slovak Telekom, a.s. exercises its rights by participating at annual general meetings, and exercises the competence of the general meetings in companies in which it is the sole shareholder. Slovak Telekom, a.s. appoints representatives to the statutory bodies of companies (the board of directors and executives) and their supervisory boards, where these bodies then submit reports to it.

Slovak Telekom, a.s. practises a responsible and transparent model of governance and regularly publishes on its website current and relevant reports on its activities. It also issues information on a quarterly basis on its economic results, publishing its annual report and a corporate social responsibly report every year.

Slovak Telekom, a.s. has long paid particular attention to the internal control and audit environment. The company's management considers the system of the internal control and audit environment to be an important managerial task and Slovak Telekom, a.s. as a subsidiary of Deutsche Telekom, AG, listed on the New York stock exchange, is involved in the S-OX 404 project within the Deutsche Telekom Group. The main focus of management at Slovak Telekom, a.s. in this regard is on the control over internal processes and standards. The results of internal testing of the control and audit environment are the subject of a control performed by the company's internal and external audit, which will concurrently serve as the basis for the statement by the management of Deutsche Telekom AG on the internal control and audit environment within the Deutsche Telekom Group. This statement was issued for the first time as of 31 December 2006.

Slovak Telekom, a.s. is a holding company, and the principles of corporate governance apply to all its component parts, i.e. to the parent company Slovak Telekom, a.s., its subsidiaries T-Mobile Slovensko, a.s., RK Tower, s.r.o., Telekom Sec, s.r.o., Zoznam, s.r.o., Zoznam Mobile, s.r.o., TBDS, a.s., the partnership institute of NGN and the branches Slovak Telekom, a.s. Rádiokomunikácie, o.z. and Slovak Telekom, a.s. Call Services, o.z. (until 15 May 2006 Slovak Telekom, a.s. Commercial Call Centre, o.z.). All subsidiaries act as separate legal entities.

Organisational structure of Slovak Telekom, a.s.
An inherent component of the system of governance is the company's organisational structure, which determines its basic arrangement, in the classification:

- the company's bodies
- executive management
- branches

with the aim of efficiently performing the company's line of business.

Company Bodies

The General Meeting is the supreme body of the company. The General Meeting competences are defined by the company's Articles of Association.

The Board of Directors is the statutory body of the company. It is authorised to act on behalf of the company in all matters and represents the company vis-à-vis third parties. The Board of Directors governs the activity of the company and decides on all company matters, unless these are reserved by legal regulations or the Articles of Association for the competence of other company bodies, or unless delegated by the Board of Directors to other bodies. The Board of Directors appoints the company's Executive Management Board and delegates the necessary powers. It approves the Rules of Procedure for the Executive Management Board.

The Supervisory Board is the supreme controlling body of the company. It oversees the performance of the Board of Directors' competences and the execution of the company's business operations. Members of the Supervisory Board met four times over the course of 2006, in March, June, September and December.

The Executive Management Board of Slovak Telekom, a.s. is responsible for the running of the Company in accordance with the decisions of the Board of Directors. The Board of Directors may entrust the Executive Management Board with any activity for which it is responsible, providing the Company's Articles of Association or Slovak legislation do not prohibit this. The Executive Management Board comprises the top-level managers of the Company and a representative of T-Mobile Slovensko, a.s. nominated by its Board of Directors. Members of the Executive Management Board are appointed and recalled by the Board of Directors. The Executive Management Board acts in accordance with applicable laws, Articles of Association, resolutions of the General Meeting, and decisions of the Board of Directors. It is responsible to the Board of Directors for its activity.

A branch is an organisational unit of the business, entered as a branch in the Commercial Register. Through its entry in the Commercial Register a branch does not become a legal entity, but simply part of a business.
Slovak Telekom, a.s. operates two branches: Slovak Telekom, a.s. Rádiokomunikácie, o.z. and Slovak Telekom, a.s. Call Services, o.z.

Code of Conduct

For several years, employees of the Slovak Telekom Group have followed the Employee Code of Conduct in their work, which shapes the corporate culture. It is based on T-Spirit corporate values, which every employee is obliged to follow and live by. The content of Employee Code of Conduct applicable in the Slovak Telekom Group was expanded and reworked in 2006. At the initiative of the parent company Deutsche Telekom AG a uniform Code of Conduct was developed for all companies of the Group, based on international standards of ethical business conduct and respecting legislation of the countries concerned. As the brand, corporate strategy and culture, and T-Spirit set of values are common to the parent Deutsche Telekom AG and all Slovak Telekom Group companies, the Slovak Telekom Group regards this newly formed Code of Conduct as a crucial document providing guidance for doing everyday business. With the underlying principles for decision-making are: morals, ethics, legal standards and corporate values.

The goal of the Code of Conduct is strengthening the credibility and image of Deutsche Telekom Group companies as trustworthy partners, and putting value-driven management and legally correct behaviour into the daily business practice of all employees, both internally between one another, and externally towards business partners.

Among other things, the Code of Conduct introduced an Ethics call line, a new tool for checking. The Ethics line is available to all employees and external partners, to present their comments on adherence to Slovak Telekom Group business principles and employee behaviour.

To the Code of Conduct are linked the Customer Orientation and Behaviour Standards, which the Company applies in cooperation with clients and colleagues, external and internal partners. They express the commitment to T-Spirit values: employees' priority is to increase continually the value of the Company and correctly react to customers' needs and wishes, to act professionally in providing services, to think and act decisively, and to seek efficiency and innovation. Employees are to fulfil thoroughly their agreements and promises. In external communication as well as within the Company, they are open and truthful. In professional relationships between superiors and subordinates, differences of opinion and personalities are respected, and cooperation is fair and responsible and shows regard for the interests of the team as a whole. The Company fairly remunerates quality performance, endeavours to have the right people in the right positions and takes appropriate steps in case of unfair actions.

Accepting the Code of Conduct is how employees express their loyalty towards the firm, and acknowledge individual and joint responsibility. Acting in accordance with these principles helps the Company fulfil its mission and achieve its vision. The adoption in 2006 of the Deutsche Telekom Group Code of Conduct positioned the Slovak Telekom Group among the international community setting the trend in the highest business ethics.

Quality Policy

Slovak Telekom, a.s.

The Total Quality Management system is an important instrument of the company's management and represents a significant competitive advantage. Its main contribution is in extending the term quality to include internal customers and suppliers within the framework of the firm's processes, the result of which is continual improvement. The quality management team guides managing quality at Slovak Telekom, a.s. by means of providing methodology, consultation, communication with individual sections in the company and means of coordinating quality improvement at the level of the company's management. Its responsibilities include the building up of a Quality Management System according to the STN EN ISO 9001:2000 standard, management of complaints, performance of internal quality inspections, involvement in the creation of the management information system and cooperation in the area of quality management within the Deutsche Telekom Group (T-Com Germany, Hrvatski Telekom, Magyar Telekom), through regular meetings which promote synergies and best practices in quality management and the mutual exchange of experience in this field.

In 2004 Slovak Telekom, a.s. implemented a system of quality management according to the international standard STN EN ISO 9001:2000 and subsequently underwent certification by the renowned certification organisation TUV Nord. Slovak Telekom, a.s. has a certified Quality Management System in developing and providing data services to key and large customers in business and state and public administration. A surveillance audit confirmed the validity of this certificate in October 2006.

"Idea management" complements quality management at managerial levels of the Company. This process manages employees' initiatives and ideas for improvement, providing a considerable pool of ideas from all management and operating levels to enhance quality.


CERTIFICATE

Management system as per
EN ISO 9001 : 2000

Slovak Telekom, a.s.

Data service development and provision to key and large customers in the business sector and in the state and public administration.

TÜV NORD


ANNEX

Slovak Telekom, a.s.

TÜV NORD

T-Mobile Slovensko, a.s.

Service quality and customer satisfaction are a priority at T-Mobile Slovensko, a.s. Focus on quality is embedded in strategic company goals and cascaded down to all management levels, also reflected in the reward system for employees and business partners. Quality goals derive primarily from customer satisfaction indicators regarding services provided and customer service in line with the vision "to become the most highly regarded service company".

Quality improvement is based on continual comparison with the direct competition as well as with top market players in other industries. T-Mobile Slovensko, a.s. sees its customer service priority in resolving customer complaints and requests. Therefore quality is evaluated mostly based on "first contact resolution rate".

T-Mobile Slovensko, a.s. is continually expanding its quality monitoring. Internal measurements combined with customer satisfaction surveys, whether in direct contact at sales points or via telephone, enable detailed quality evaluation and exact targeting of areas where improvement is needed, whether these be processes, information systems or human resources.

T-Mobile Slovensko, a.s. is aware that a high level of quality cannot be achieved without top-quality suppliers. Therefore, emphasis is placed not only on supplier selection but also on setting demanding requirements for performance quality, which both company and suppliers endeavour to continually improve.

International activities also contribute to optimal quality management. In 2006 T-Mobile Slovensko, a.s. carried out preparations to join the international T-Mobile Group programme Business Excellence, for quality improvement using Six Sigma methodology. The projects implemented under this programme focus on quality improvement through process optimisation, aiming to increase customer recommendations of T-Mobile and to achieve financial savings.

Sustainable development and the environment

Slovak Telekom, a.s. is a signatory of a strategic document: the Sustainability Charter, approved by the European Telecommunications Network Operators Association in 2004. By signing this document the Company linked up with the effort of the most progressive companies in Europe to give equal attention to the economic, social and ecological aspects of doing business. Charter conclusions, sustainable development model principles, and the new Environmental Policy of Deutsche Telekom AG are elaborated in the Sustainable Development Strategy of Slovak Telekom, a.s.

The strategy voluntarily extends the commitments of Slovak Telekom, a. s. beyond the duties imposed by Slovak law. It contributes significantly to improving protection of the environment, business morals, the quality of life of citizens and employees and thereby also to the perception of Slovak Telekom, a. s. as a highly responsible and respectable company.

Slovak Telekom, a.s. applies experience from its active participation in ETNO's sustainable development working group, and cooperation in the Deutsche Telekom Group working group on sustainable development, in specific measures to enhance care for the environment, realising that even minor actions can have a large environmental impact.

In 2006 the Company achieved good results in reducing the production of pollutants causing climate change, in removing old environmental burdens, in particular for protecting waters, in economical utilisation of water and energy supplies, in reduction and improved valorisation of wastes, /95in handling electronic waste and valorisation of packaging.

II. Shaping Development in the Telecommunications Market

Market Competition Brings Benefits for Customers

Legislative conditions

Act No. 610/2003 Coll. on Electronic Communications, as amended, was in 2006 subject to extensive modifications. Modifications were driven by concerns raised by the European Commission regarding the transposition of the European regulatory framework in the Slovak law as well as corrections resulting from the practical law application as of 1 January 2004.
The amendment is the result of almost one year of talks between market players, the Slovak Telecommunications Office and the Slovak Ministry of Transport, Post and Telecommunications, in the course of which Slovak Telekom, a.s. managed to enforce its priorities in the maximum extent possible. However, the amendments introduced upon initiative by the Commission reflecting consumer rights protection, provision of identification and localisation data, and number portability increased the regulatory burden on companies providing electronic communication networks and services.
Pursuant to legislative amendments to the Electronic Communications Act that took effect as of 1 April 2006 (Act No 117/2006 Coll.), the Slovak Telecommunications Office was obliged to issue the numbering plan as a generally binding legal regulation. At the end of 2006, the Slovak Telecommunications Office submitted the draft wording for commenting.
At the end of 2006, the Ministry of Transport, Post and Telecommunications submitted additional draft amendment to the Electronic Communications Act for commenting. The scope of the amendment concerns the implementation of directive regarding data storage created and processed in relation to the provision of public electronic communication networks. The data storage and provision directive is a direct consequence of measures taken by the EU to combat terrorism.
After three years of practical application of the “new regulatory framework”, the process of its review was started throughout Europe. The plan was to announce revisions at the beginning of 2007. However, based on already publicised principles and revision intentions it is now clear that planned revisions dealing with the transition from specific electronic communications regulations to more general rules of competition law will not be made within the existing regulatory framework in the next few years.

Market regulation

Over the past year, competition within the Slovak telecommunications market has grown. Part of the growth is a direct result of regulatory obligations imposed on Slovak Telekom, a.s.
Following an August 2005 decision by the Telecommunications Office, Slovak Telekom, a.s. released its Reference Interconnection Offer (RIO). Since then, 11 alternative operators have interconnected their company networks with Slovak Telekom, a.s. towards the end of 2006. After these national alternative operators became established, regional operators also started showing interest in interconnecting their networks.
Throughout 2006, Slovak Telekom, a.s., repeatedly and voluntarily adjusted the cost of interconnection in order to fulfil regulatory obligations: including cost-oriented pricing obligation, and submitted interconnection price calculation based on LRAIC top-down methodology. Although Slovak Telekom released its Reference Unbundling Offer (RUO) in August 2005, not a single local loop was unbundled in 2006. Furthermore, based on the stage of negotiations with alternative telecommunications companies the Company does not anticipate any unbundling in the near future.
In April 2006, Slovak Telekom, a.s., was designated as Slovakia’s universal service provider. Full universal service obligations were imposed on the Company, but with different commencement periods, including 4 April 2006 for provision of universal access to emergency numbers, installing public payphones, and providing telephone services for handicapped users on or before 1 January 2007 in line with implementing legislation requirements of the Telecommunication Office of the Slovak Republic.
In June 2006, Slovakia’s mobile operators launched the number portability service. As for fixed networks, there is no consensus on number portability rules for the whole market despite discussions started by the Number Portability Association, an organization founded in October 2005. Currently, Slovak Telekom, a.s. provides number portability based on bilateral agreements stipulating service conditions between the companies concerned. The first fixed line numbers became portable as of 1 December 2006, and by the end of 2006, 10,206 numbers were transferred from Slovak Telekom, a.s. network.
The Electronic Communications Act requires the Slovak Telecommunications Office to designate relevant markets in the field

of electronic communications based on a list recommended by the European Commission. The Telecommunications Office is also obliged to periodically review whether the designated markets support effective competition.
In the course of 2006, the Telecommunications Office analysed all recommended markets and decided to designate players with significant market power in six relevant markets.
Several major telecommunication operators based in EU countries have voiced discontent with the decisions made by their respective Telecommunications Offices and rejection of imposed regulation. Additionally, aspirations to resolve regulation on the European-wide level are growing stronger. In general, former state-owned telecommunications monopolies want the freedom to set market prices throughout Europe to ensure that any costly network modernization investments yield reasonable profits. De-regulation in other countries, such as the United States and Asia, shows that such approach leads to increased competitiveness, reduced prices, more extensive service offering, and highly increased productivity. Certain tendencies are also reported in Europe, such as exclusion of certain markets from regulation in future planned regulatory framework modifications.

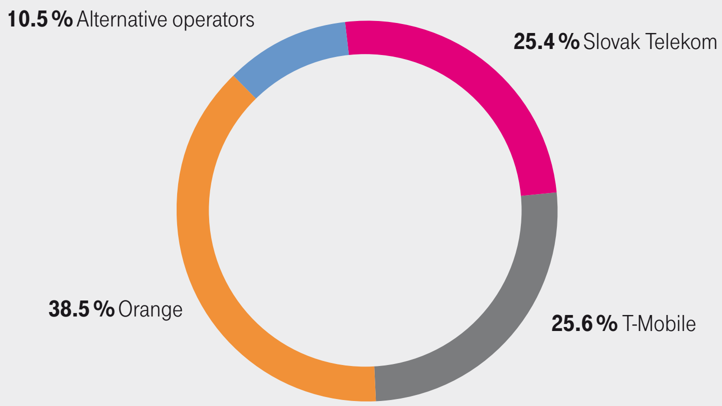
Telecommunications market in Slovakia

The dynamic growth reported in the Slovak telecommunications market over the past few years continued its upward trend also in 2006. While operators benefited from increased demand, mostly for Internet, data and mobile services, increased competition, on the other hand, resulted not only in price reductions for the customer but also in extending the portfolio of products and services. Several state-of-the-art technologies were introduced to the market, providing users with a new dimension and experience in using services. For example, both mobile operators in Slovakia launched the third-generation UMTS network and extended service offering related to calling over the Internet. In addition, Slovak Telekom, a.s. launched a revolutionary, interactive IP-based television service under its T-Com brand. The offering also became much richer with the launch of "Triple Play" services, which combine voice, Internet access and TV. Today, a Slovak customer can choose from services and access technologies comparable to those of developed markets in Western Europe.
The total anticipated 2006 revenues for Slovakia's telecommunications market is SKK 62.2 billion, reflecting a year-on-year increase of almost 7%. The mobile market in particular emerged as dominant once again, with total revenues totalling SKK 40 billion – an 11% increase. The dynamically developing Internet service market was the other main driver of overall telecommunications growth. Slovak Telekom Group and Orange Slovensko, a.s. retained their leading market positions.

Telecommunication market revenue distribution
in millions of SKK

	2004	2005	2006
Slovak Telekom, a.s.	16,889	16,012	15,824
T-Mobile Slovensko, a.s.	13,230	14,590	15,965
Orange Slovensko, a.s.	19,105	21,444	23,900
Alternative operators	4,621	6,327	6,511
Telecommunications market total	**53,845**	**58,373**	**62,200**

Market shares of operators in 2006



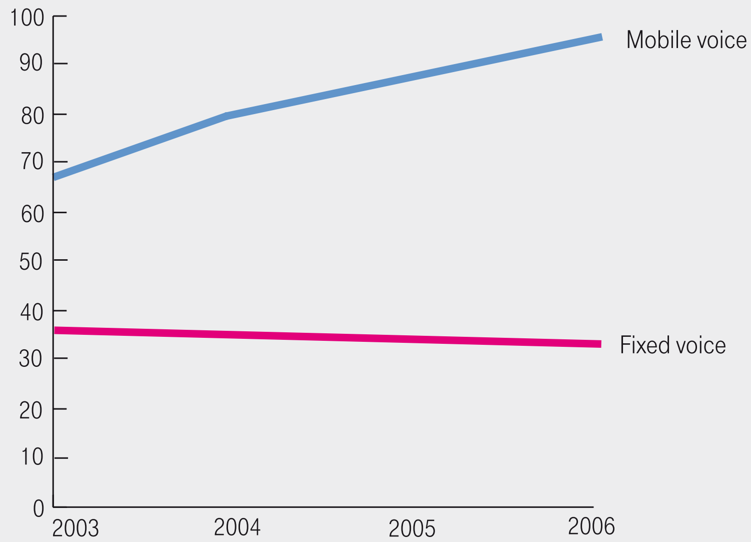
Source: Statistical Office of the Slovak Republic, Orange.

Following several years marked by a distinctive drop in the number of fixed network customers because of shifting to mobile telephones, 2006 is characterised by a gradual stabilisation. Fixed voice penetration decreased only very moderately to some 24%. The reasons are predominantly attractive fixed voice prices, service packages shifting to unlimited (flat-rate) calling plans, and increased Internet telephony offerings. Besides T-Com, the service was provided also by UPC, Slovanet and GTS Nextra. Finally, in the business customer segment, there was an increased demand for fixed voice services as part of overall virtual IP-network based solutions.

Mobile voice penetration increased from 84% at the end of 2005 to 96% at the end of 2006. The trend in mobile voice services was characterised by a growing migration of customers into the postpaid segment, marketing campaigns offering unlimited calls in "home networks" and reduced roaming service charges. A substantial increase in competition on the voice market is expected thanks to the anticipated entry of a third mobile operator, O2, launching its commercial operation in February 2007. Further pressures to lower prices and expand service portfolio including mobile content services are anticipated by the market entry of virtual mobile operators within one or two years' time.

Fixed and mobile voice penetration development in Slovakia

Number of fixed lines including VoIP and SIM cards per 100 inhabitants.



Source: Slovak Telekom, Orange.

According to 2006 data, the Internet market continues to be the fastest growing telecommunications segment in Slovakia with anticipated total revenues increasing by almost 50% to more than SKK 3 billion. The ratio of households with broadband connectivity increased from some 6% reported at the 2005 year-end to 12% in 2006. The estimated total number of broadband connections on the market by year-end 2006 totalled close to 350,000. Competition between various access technologies (DSL, cable, FWA, Ethernet) substantially increased after T-Mobile Slovensko, a.s. completed its national coverage of Flash OFDM technology and Orange Slovensko launched mobile Internet service provided over UMTS/HSDPA network. Also in 2006, DSL retained its position as the most popular access technology with a stable market share of 54%.

The focus of competition between telecommunications providers will shift from price differentiation to attractive Internet content such as IP-based TV, video, music and games on demand. Mobile operators will not lag behind, striving to increase mobile Internet sales with attractive mobile voice packages as well as 3G network content including mobile TV.

It is estimated that data services reached 7% in 2006, a rise resulting mainly from an increase in business customer demand for overall solutions based on virtual private IP networks. This trend also saw the partial migration of customers from traditional transport technologies such as leased lines and Frame Relay. In terms of access technologies, it was primarily DSL and wireless FWA technology solutions that expanded. Owing to the high business customer segment saturation level, one can anticipate pressure on providers to eventually decrease data capacity prices. Providers will also be more interested in generating revenues from new services, e.g. IP-based voice services and related IT services.

Slovak Telekom Group strategy

The corporate strategy of the Slovak Telekom Group is to flexibly react to market changes and competition. The basic pillars of this strategy are focus on revenue growth, maintaining and enhancing operational efficiency, achieving synergies at the Group level, and fully transforming into a customer-centric company with effective processes.

Opportunities in the fixed network market

The strategy of the Group in the field of fixed networks focuses predominantly on establishing a turnaround for growth – changing the long-term negative trend of decreasing revenues to achieve sustainable growth. The company intends to restructure its service portfolio and shift the core business from the decreasing fixed voice service segment to dramatically developing Internet services, interactive IP TV and Internet content. Slovak Telekom, a.s. plans to make the its "Triple Play"–based Magio service available soon to customers in all regional and selected district towns. The company's long-term goal is not only to retain its leading position in the area of broadband Internet but also to become the largest provider of paid TV services and online content in Slovakia.

In the course of restructuring its fixed network portfolio, Slovak Telekom, a.s., will also defend its position in decreasing fixed voice segments, narrow-band Internet and traditional data services. The objective is to find an optimum compromise between minimising the drop of revenues from the traditional services and gradual migration to IP-based services. Meanwhile, the Company will enhance its customer-centricity and effective management by simplifying its service portfolio, reviewing customer segmentation, redirecting expenditures to growth areas, and further developing its human resources to fully reflect market changes and internal challenges.

Increasing operational efficiency and streamlining processes across the fixed-line network segment will also be a key goal of Slovak Telekom, a.s. in the coming years. A turbulent telecommunications market, substantial intensification of competition, and the continuing launch of new technologies result in new challenges for the Slovak Telekom Group: to generate additional growth of economic value added by increasing efficiency, leading to greater shareholder profit despite decreasing prices and competitive pressure.

Mobile communication services

The current strategy of the mobile business line of the Slovak Telekom Group focuses on customer centricity: achieving a perfect understanding of the customer's needs and providing first-class mobile network access. The goal of T-Mobile Slovensko, a.s. is to bring customers the best possible service offering and maximum customer service quality in all sales and service channels while achieving excellent performance in all customer-oriented and support processes.

The company's strategy is to focus predominantly on customer segments with high growth potential and market services that directly address clients. Examples include FIX, successful price plans launched last year targeting the younger generation; packages combining mobile voice and Rýchly internet (Fast Internet) for working couples and families; and BlackBerry mobile communication products for corporate clients. T-Mobile Slovensko, a.s., will continue to provide its strategic "first-class network experience" and build its position of best mobile Internet connectivity provider. Since October 2005, the company has increased its service coverage for Rýchly internet (Fast Internet) to 70% of the population while achieving higher speeds, going from 1 to 5.3 Mbps.

Group Synergies

An important pillar in Slovak Telekom Group's strategy is synergy between the fixed and mobile divisions and generating higher value for shareholders. The past year marked the successful implementation of the T-Com and T-Mobile Joint Strategy project in the area of broadband Internet, which resulted in the first joint launch of DSL Internet and mobile voice packages. Going forward, the company will continually identify areas for optimisation of operational and capital expenditures, optimise their Group-level management model and processes, and further explore cross-selling opportunities and converging fixed and mobile network service portfolios.

Transformation of Slovak Telekom, a.s., Still on the Agenda

The transformation initiated at the time of inclusion of the Company in the Deutsche Telekom Group will remain part of the strategy of Slovak Telekom, a.s. The Company wants to grow its market share, and to operate as an innovative and progressive entrepreneur. Thus, it will pursue new methods and opportunities to increase its competitiveness.

In this respect, the Company is putting great effort into becoming a next generation operator. This transformation involves all business activities and concerns every company employee. The goal is to provide customers with top quality and excellent services at appropriate prices as well as to achieve performance ensuring business growth.

In 2006, a transformation programme named eNGine 2004 – 2006 came to its successful conclusion. The scope and goals of transformation necessitated the development and launch of new tools and procedures company-wide. The programme was simultaneously implemented in three areas: projects, processes and last but not least people.

The key instrument of transformation has been and still is projects. The scope of the change can be illustrated by the number of projects. At the start of the transformation programme, Slovak Telekom initiated 48 projects. Toward the end of 2006, that number had decreased to roughly one half. Progress can be tracked in the number of DSL customers, going from 38,000 in 2004 to 182,391 at the end of the previous year; and from 225 lines per employee in 2004 to 408.5 at the end of 2006. The Company also pursued its transformation goals through outsourcing its non-core businesses, including its commercial call centres, the Real Estate and Facility Management Subunit, the printing services and logistics services.

Slovak Telekom, a.s. also continued implementing process-driven organisation principles, strictly following customer requirements and ensuring all support processes and procedures align around such requirements. Business process orientation and sharing targets of customer-oriented processes along with regular diagnostics of business processes made it possible to accelerate the rate of response to customer requirements, decrease internal costs and manage service quality. The Company combined becoming significantly more effective with increasing service quality and customer satisfaction, all while decreasing headcount.
All employees successfully contributed to the achieved transformation goals by maintaining a positive attitude and cooperating as individuals with the many projects launched. The eNGine project team strived to achieve that everyone understands, why the change is important for the company and how everyone can contribute to attain transformation goals.
As part of the transformation process itself, the company's workforce structure changed to better address new tasks. Hundreds of employees successfully completed project management training. Changes were also reflected in the organisational structure, now leaner, but with new abilities and skills.

The fact that the transformation project eNGine 2004 - 2006 was shortlisted in the World Communication Awards (WCA) contest in the category Best Change-maker attests to the manner in which transformation has been accomplished at Slovak Telekom, a.s., a benchmark on a global level. Transformation is a continual process. The goal going forward is to establish Slovak Telekom, a.s., as ever successful in providing products and services to its customers. Transformation requires constant company improvement, to become even better and more effective in its activities. Continuing transformation is founded upon a new target model, prioritising transformation in three main groups:

- core business optimisation,
- core business improvement,
- people.

Expectations in 2007

In 2007, Slovak Telekom, a.s anticipates changes in reference unbundling offer and reference interconnection offer as well as publicising the reference offer for leased lines.
In relation to the third mobile operator's entry and growing offer of attractive VoIP products, there will be increased competition in voice services. Also, demand for broadband Internet services will rise, mainly in the household market and very small enterprises (VSE) segment, thus enhancing the broadband penetration. Broadband consumers will likely choose their provider based on the Internet content and interactive IP TV offering. Competition in various access technologies will intensify thanks to the emergence of FTTx / Ethernet networks by other operators and selected municipalities. Migration from traditional data services to virtual private IP networks will also continue, in the direction of offering comprehensive services with IP-based voice service offering together with related IP services.

III. Report of the Company's Management

Services and Products That Serve Our Customers

In 2006 Slovak Telekom, a.s. presented a number of interesting services under the new brand of T-Com, and introduced simpler, more attractive services to take the place of existing ones. The portfolio of voice, data, Internet, and content services was widened, and integrated solutions for both residential and business clients appeared for the first time.

Customer Satisfaction Comes First

The customer's perspective is what most significantly reflects the work quality of all employees in the end. The TRI*M Index expresses customer satisfaction in numbers. It is applied by companies in various industrial fields worldwide, and the result benchmarks individual performance against other companies in a market or particular country. Last year Slovak Telekom, a.s. measured customer satisfaction in a one-off survey and again achieved exceptional success.

For residential customers, the index of the European Union operators (the reference value) dropped by two points compared to the previous year, but Slovak Telekom, a.s. has been above that value for several years. In fact, it achieved a greater index increase than the year before.

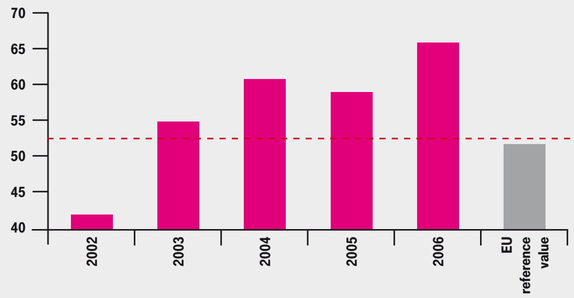
In the case of business customers, the index of the European Union operators (i.e. reference value) went up by one point compared to the previous year. Last year, the TRI*M index of Slovak Telekom, a.s. shot well above all index levels it ever scored. The highest year-on-year increase of 5 points was achieved in 2006.

2006 TRI*M index values again placed the Company among the absolute top-rank of telecom operators in Europe, with excellent scores among both residential and business customers.

Customer satisfaction with voice services, household segment

Source: TNS AISA

Customer satisfaction with voice services, business segment



Source: TNS AISA

The EU benchmark for customer satisfaction with mobile services is 72, and T-Mobile Slovensko, a.s. scored 81 points in the household segment in autumn 2006, placing it among top-rank mobile operators.

T-Centrum: a New Place to Meet Customers

With the change in business name and launch of the new T-Com brand in March 2006, customers got a new environment to meet with Slovak Telekom, a.s. Having optimised its sales network, Slovak Telekom, a.s. has made its services available to customers at T-Centres located in 62 towns throughout Slovakia. Slovak Telekom, a.s. has enhanced personal customer contact and brought sales points closer to them by opening T- Centres in new towns. Increasing service accessibility was accompanied by an expanded service offering. Broadband Internet access has been promoted along with classic telecommunications services. Sales of terminal equipment are also becoming more significant, with their ever-expanding offering and increasing functions. Synergies within the Slovak Telekom Group have brought benefits for the customers too, as they can now visit 23 special T-Centres, which offer both fixed and mobile network services. Dozens of telephones currently on offer by T-Mobile Slovensko, a.s. and other mobile communication products are thus available to customers.

Fixed Network Products and Services for Households

Voice Services

As of 31 December 2006, Slovak Telekom, a.s. had 1,283,734 fixed lines registered (including ISDN b-channels and public payphones). The Company continued compiling a flexible voice service offering. Under the T-Com brand, the customers were ever more often offered products designed to satisfy their communication needs. Optional calling plans, where customers choose a particular plan type which suits them the best or which offers the best-fitting benefits, were further promoted – and at year-end 2006 they accounted for 82.5% of all residential customer plans. During rebranding and the T-Com brand launch, Slovak Telekom, a.s. introduced new fixed line plans and voice services, based on new technologies.

Taking into account the growing number of mobile phone customers, Slovak Telekom, a.s. opted to create the special Doma Uni plans. This group of plans is distinctive in its structure: the basic package comprises free minutes that can be used for calling to Slovak mobile networks. Previously, customers could use package minutes only for calls to fixed networks and every call to a mobile network was charged separately, but with the Doma Uni plan they can use all the minutes for calls in fixed or mobile networks without limiting themselves to a particular network. Likewise, the cost of calls exceeding the monthly package has been set with Slovak market mobile call prices in mind. The Doma Uni plans proved very attractive to customers last year: over 111,500 customers ordered them within the nine months it was available.

Interest in Calling Plans in 2006

In summer, Slovak Telekom, a.s. introduced new benefits for international calling, along with an interesting permanent price reduction. Customers could select three countries and make calls priced per minute to fixed networks of those countries at only SKK 1.90 and SKK 4.90 to the mobile networks abroad. Service activation and selection of the three countries is free of charge and there are no time restrictions regarding the use. Slovak Telekom, a.s. also prepared an attractive offer for customers travelling abroad. With a Max or Global card, customers could call 60 minutes from abroad for free per month when calling to the fixed as well as to both mobile networks in Slovakia. When calling from abroad they could use public payphones, hotel telephones, or any telephones in restaurants or at their friends'. The quantity of minutes was plenty for them to call home from their holiday for free.

Slovak Telekom, a.s. also followed voice service trends in its updated assortment of voice plans. Doma Extra became the first flat programme, where the customer can place unlimited calls in the ST fixed network for a flat monthly fee. Free calls are available also for other programmes, for specified time period. For instance with Doma Uni, Doma Pohoda and Doma Maxi once the package minutes are used up, one can call in the ST fixed network for free in off-peak and during weekends.

A special product, Voláme spolu (Calling each other), launched under the T-Com brand, allowed the customers to choose one number within the ST fixed network to which to make unlimited calls. These unlimited calls are also available after the free minute package is used up. Such calling is not restricted by any time limits.

In 2006, Slovak Telekom, a.s. continued to support the popular SMS správy service, (SMS messaging); the short text messages can be sent within both fixed and mobile networks. The terminal equipment offering includes an ever-growing number of devices capable of sending short messages. The customers were also offered several special SMS days, when they could send short messages free of charge.

The Company's effort to best accommodate to its customers also came through in its introduction of euro coin-operated machines in the public pay phones network. Focusing on town and city centres, Slovak Telekom, a.s. has rolled out paypho-nes which accept Euro coins for payment along with the Slovak crown. Such innovation was particularly attractive for foreign users, and the number of combined public payphones has rapidly increased.

Improvement of other services has also come as a matter of course: Odkazová schránka (Universal Messaging Service), Informačné služby operátora (Inquiry and Operator-Assisted Services), Faxová služba (Fax Message Service), Volacie karty (Calling Cards) and also Telefónne zoznamy (Telephone Directories) are an integral part of the T-Com product portfolio. The functions of the Info Asistent Service, at the telephone number 12 111, were repeatedly broadened, by information depar-tures of SAD (Slovak Bus Transport) buses in Bratislava, Poprad and Prievidza, as by on-line ticket booking and other useful information.

A number of new and attractive products played a role in the low churn level of fixed-line users, as compared with other former Central European incumbents.

Voice over the Internet, too

With the start-up of the new T-Com brand, Slovak Telekom, a.s. also brought a new type of voice services called Hlas cez Internet (Voice over Internet). In the course of the past year, it presented three interesting plans: with the basic plan Hovorím cez internet Uni (Talking over the Internet Uni), users can test service advantages; and with the high-end Hovorím cez internet Total (Talking over the Internet Total), they can make calls at trivial prices. The third plan (Hovorím cez internet Kontakt, Talking over the Internet Kontakt) enables calls to mobile networks in Slovakia within the monthly fee and so erases the differences between traditional voice and the modern Internet voice services.

Interest in the new service was also prompted by promotional events, during which the customers could get two plans for the price of one. The users could thus acquire free calls even when travelling internationally, needing only a PC with Internet access. With the service installed, they could communicate with one another at no fees for voice transmission.

Data Services

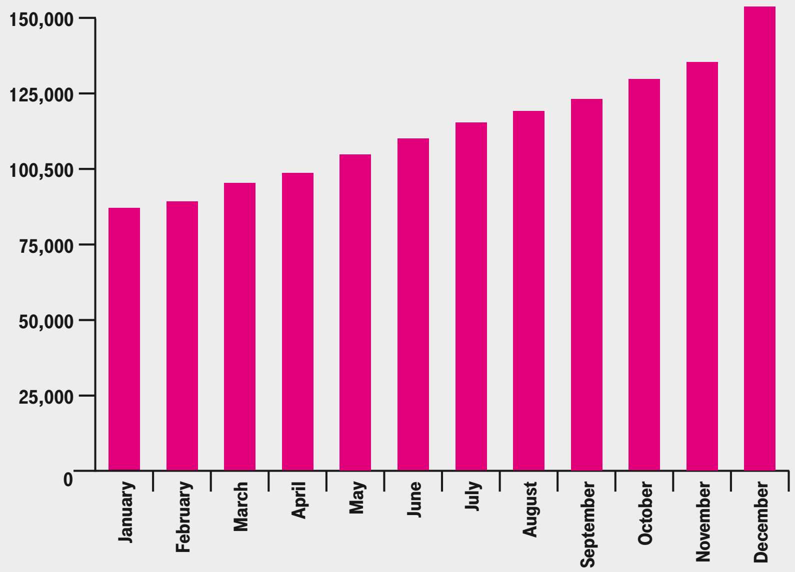
Developing information technologies enables Slovak Telekom, a.s. to respond flexibly to the ever-growing demands of data service users in Slovakia, and to further enhance ADSL availability. Users are gradually coming to use the Internet more and more for information, educational and cultural purposes or entertainment, and the T-Com brand intends to provide them with a connection reliable and fast enough to satisfy their needs and interests. A high number of attractive products, and particu-larly the variety in the offering, make it possible to choose a DSL programme according to several criteria, from the standard connection data package up to maximum-speed connection with unlimited data volume. The ADSL technology has a number of additional benefits, valued for instance by PC game players who require the quickest network response possible for a thrilling experience – and the broadband Internet can give them just the entertainment they want.

The number of DSL connections continues growing dynamically. Slovak Telekom, a.s. had over 182,000 DSL accesses at year-end 2006. The technology is available in 800 towns and municipalities throughout Slovakia, and is accessible by over 3.8 million people. Slovak Telekom, a.s. expects to exceed the number of 250,000 customers in the course of 2007 and have close to 300,000 DSL customers at year-end.

Overall Number of DSL Accesses

Potential customers, however, are not just choosing DSL technology, but in the T-Com brand also see an Internet connection provider. The number of customers using T-Com for both access and DSL programmes keeps growing, accounting for almost 84% at year-end 2006.

Overall Number of DSL Programme Users



In order to further enhance customer satisfaction with DSL technology, Slovak Telekom, a.s. again increased data transmission speeds as of 1 March 2006, free of charge. While the prices for programmes remained unchanged, the standard download speed went up by 512 kbps, data sending (upload) rate of all programmes was set at 256 kbps as a minimum.

Data Transmission Rate Increase

After rebranding, an interesting programme offer was introduced. The new programmes of Vysokorýchlostný internet (High-speed Internet) gave the customer a better overview of services used. While in the past the DSL access and the relevant DSL programme were billed separately in the invoice, under the T-Com brand the customers can buy a programme in which both fees are billed under a single item, making the services more transparent. In the course of the year, Slovak Telekom, a.s. also decided to strengthen significantly the low-data segment of programmes, in the form of the Internet Pohoda 1000 programme.

At the same time Slovak Telekom, a.s. expanded its data programme offer for another type of customers, introducing the Vysokorýchlostný internet plus (High-speed Internet plus) programmes as of 1 May 2006. This set of programmes is designed for those who wish to purchase the data programme alone, and do not need the analogue flat-rate voice.

In an effort to develop broadband Internet penetration and provide a modern Internet connection to a higher number of residents, the Ministry of Transport, Posts and Telecommunications of the Slovak Republic began providing a government subsidy of SKK 6,016. The sum comprised a subsidy for education and monthly contributions for two years of service use. The subsidy was created for 40,000 applicants, with 5,000 subsidies for each of the eight Slovak regions. Government subsidies were first offered to young people aged 15 to 25 years, but after a few months the age criterion was dropped and the subsidy was available to any Slovak citizen. Slovak Telekom, a.s. achieved very good results in this campaign, having gained the largest number of orders from among several dozen providers that satisfied the condition for providing Internet connection with this state subsidy. T-Com installed close to the half of the total number of 40,000 connections.

Several surveys have suggested many people in Slovakia are interested in DSL connection, but do not have funds sufficient for initial purchasing of hardware to run the Internet. Slovak Telekom, a.s. took advantage of this fact and presented a unique Christmas offering of a PC for a symbolic SKK 1. So for a very small fee this offering brought hardware to those interested, who could then choose a programme matching their price and other expectations, to optimally use a T-Com brand PC and internet connection.

At the same time, Slovak Telekom, a.s. has not forgotten customers with the traditional dial-up (narrow-band) connection. Although many dial-up connection users are gradually changing over to broadband DSL, the number of dial-up customers remains very high: 60,000 connections at year-end. The T-Com brand presented two attractive service offers, both of which eliminated the monthly fee and allowed users to utilise dial-up at the cost of connection duration.

Customers Desire More Content Services

Over the past two years of innovations and new product launches Slovak Telekom, a.s. has been responding to the increasingly sophisticated market. Following the deployment of advanced technologies, users' focus will start to shift from hardware Internet connection to content accessible through the connection they utilise. In this respect, the Company felt the need to create content interesting for its customers and for all Internet users of any age. Slovak Telekom, a.s. has succeeded in bringing out a captivating form which the customers have not come across before: a comprehensive Internet portal.

For this reason, the T-Station portal was changed as part of the rebranding activities last year. After 8 March 2006 the portal and its individual parts became more transparent, now offering easy, user-friendly orientation among a number of appealing services. The portal is divided into several sections, such as Magazín (Magazine), Filmy (Films), Hudba (Music), Ihrisko (Playground) or Hry (Games).

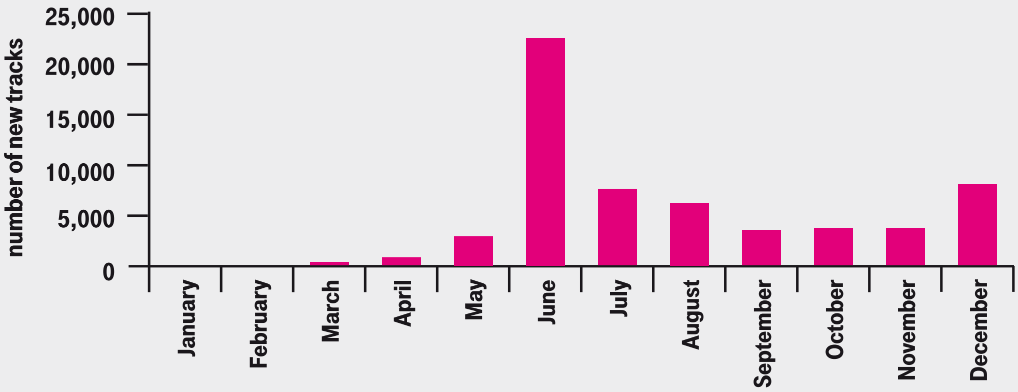
The Magazín section mainly contains interesting life-style reading for users frequently surfing the Internet, who prefer concise and content-rich articles with attractive graphics. Magazine offers exactly this kind of reading, featuring a number of established authors. Exclusivity is among the strengths that draw visitors to the content web sites, so a new novel by the very popular writer Maxim E. Matkin has been appearing at the T-Station since November 2006.

The Ihrisko section, previously known as Games, is already well known to users. It is the largest Slovak Internet gaming site, visited by those who test their wits in the most popular multiplayer games worldwide.

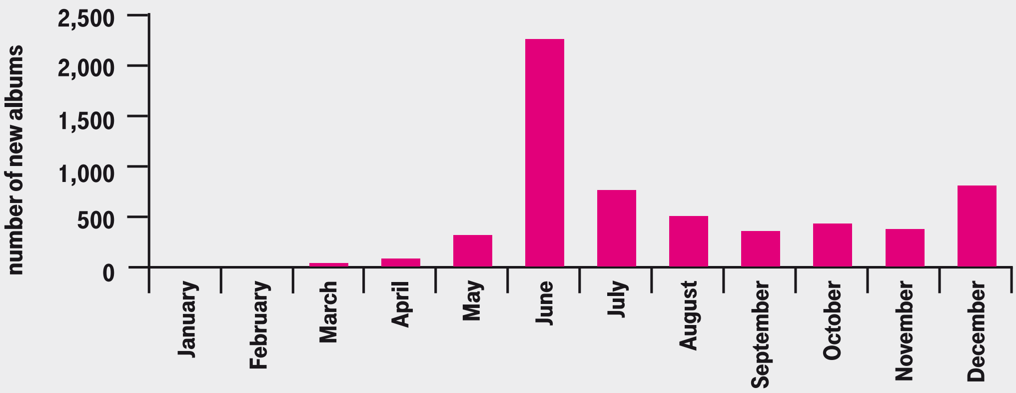
The Filmy section provides the Video on Demand service, launched by Slovak Telekom, a.s. in November 2005. In 2006 the range of films on offer was greatly expanded, and now numbers over 300 titles. The films are logically clustered according to genres and various categories. Film-lovers can now find a specialised section on favourite Czech films, nature or music documentaries, and movies that cannot commonly be viewed or purchased in Slovakia.

In 2006 multimedia on demand was expanded by the Hudba and Hry sections. The Hudba section includes Music on Demand. This service is outstanding for its exceptionally wide range of singles and complete albums, whose number exceeds 100,000. Easy-to-follow categorisation and variety of genres is also a feature of this section. Czech and Slovak music, popular genres like pop, rock, hip-hop, jazz, and electronic music are all available, and lovers of classical music, alternative, folk, country and soundtracks or various music compilations will also find their favourites. An interesting feature is that the customer can purchase a whole album, but is not required to take the undesired pieces. The customer can buy individual songs or compositions, and pay single prices per relevant item. Customers may also purchase one piece from every album and make their own compilations, at prices considerably lower than when purchasing all the albums.

Number of New Tracks Added to www.t-station.sk in 2006

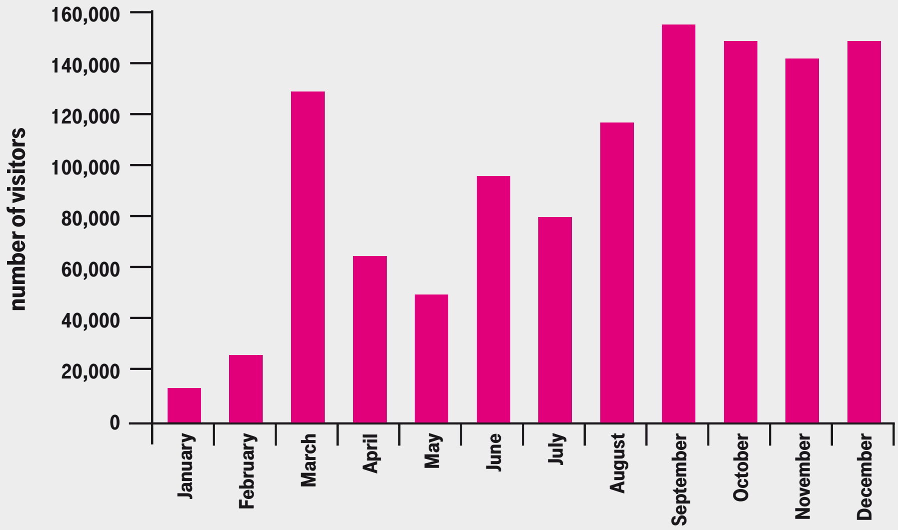


Number of New Albums at www.t-station.sk in 2006



Hry (Games on Demand) is a modern service using a simple charging system. The user pays only a single monthly fee, and gains access to all available titles from the genres selected. The Hry service is currently offered in two versions: as a Štandardný (Standard) or Rodinný balíček (Family package). Štandardný balíček owners have access to games of all genres, now offering a choice of more than 100 games. The Rodinný balíček package is ideal for parents who want to buy their children instant access to games, giving users access to all games suitable for youngsters. All games use a simple interface, in which the user enters his or her login data and then selects a game. Part of the game is downloaded to the PC, while the other part continues downloading while the user experiences the first part of the selected game. The Games on Demand service is a good example of a single monthly fee service giving the user access to the complete offering.

Visitor Numbers to www.t-station.sk



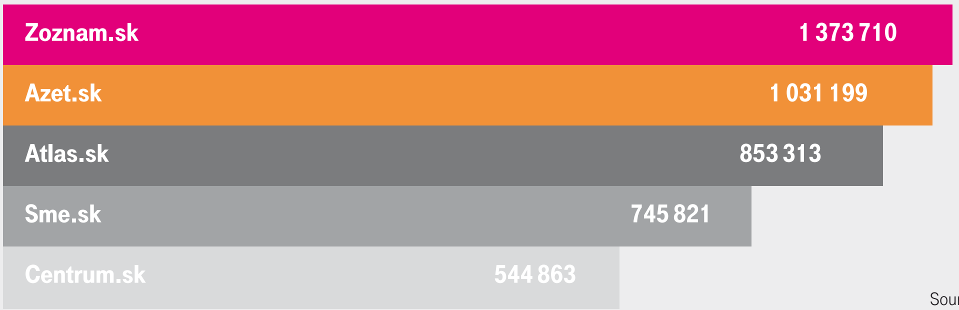
Zoznam with a Million

Following the acquisitions of Zoznam, s.r.o. and Zoznam Mobile, s.r.o., the Slovak Telekom Group has more intensely focused on developing other internet services. The Zoznam.sk portal offers the users more than just standard services such as browsing the Internet, a web-site catalogue, email box administration or free-mail service. Zoznam.sk also offers the most-visited news server in the Slovak Internet, Bleskovky.sk. The Zoznam.sk group network of servers offers the user information in a number of magazines or specialised web-pages (for example about cultural events or real-estate services). Last year saw additions to the server network, such as Futbal.sk focused on one of the most popular sports in Slovakia, or Dromedar.sk, an interactive on-line travel magazine.

The monthly visitor rate of Zoznam.sk continues to grow. It exceeded 1,000,000 visitors for the first time in September 2006. In November 2006, Zoznam.sk and its products were visited by more than 1.3 million visitors. Taking into account the general visitor rate of the Slovak Internet, it can be concluded that Zoznam.sk and its products were used by more than half of Slovakia´s internet population at least once a month.

Ranking of Slovak Internet Servers by Visitor Rate in December 2006

Zoznam.sk vs. its Competitors
Internet population: **2.6 million unique users per month**



Source: iAudit, December 2006

Zoznam.sk secured a strong position within the Slovak Internet market thanks in part to the localisation of the popular ICQ communication programme. A suitable interface has made ICQ another channel for advertisement, text messages, calls, file transmission, Java games and interconnection with other products, such as display of the latest news from the Bleskovky.sk server. ICQ is used by close to 350,000 clients in Slovakia.

T-Com Brought the Richest Triple Play to Slovakia

Slovak Telekom, a.s. planned throughout 2006 to launch Triple Play-based services in 2006, working to launch the best possible service package with modern functions and interesting coverage. The year-long efforts resulted in the Magio service, launched in December 2006.

Magio combines all the benefits of fully-fledged Triple Play. It contains a Magio Komunikátor product, enabling IP calls at attractive prices. For instance, prices for calls to fixed and VoIP networks in the Slovak Republic were unified, and customers can call mobile networks in the Slovak and Czech Republic at the same price. Pricing of calls to other networks abroad is also attractive, and sometimes also cheaper than traditional fixed line rates. The package also comprises a broadband Internet connection, where customers can choose between a data package with free weekends or a completely unlimited data connection.

The biggest lure of the Triple Play is IP TV, i.e. digital television. It enables users to get high-quality voice and picture, but many other rare features too. Watching TV, programmes and all related functions are much simpler thanks to the Electronic Programme Guide (EPG), with a complete description of programmes typically prepared two weeks ahead and regular updates. The viewer can access the functions directly from a single menu. These include the electronic account statement, parental lock and picture-in-picture features, thanks to which the one can see what is on another channel without switching between channels (i.e., watching both programmes simultaneously). Pause/ LiveTV function is also available, by which it is possible to leave the room and come back later, and continue watching the entire TV programme from the moment it was paused till the end. The high-quality hardware supplied for the service, called Magio Box, also gives users the intelligent programme recorder function. They can record any programme, and a special TV series feature allows all episodes to be recorded with a single command.

One of Magio IP TV's strengths is the possibility to compile a programming offer of one's own choice. The customer gets a basic package with Slovak, Czech and German channels. Additionally, they can opt for one of six thematic packages (kids' package, documentaries, films, sports, mix 1 and mix 2) and three premium packages. The customer, however, gets a given number of packages within the monthly fee, so users can compile an attractive programme range at the cost of the monthly fee. The packages can be changed flexibly, within several days.

Magio also comprises a Home Video on Demand service, with the customer borrowing a selected film for 48 hours. Film data is not downloaded to the hard disc but streamed in real time, so the customer does not have to wait until all the film data is downloaded to watch it.

Fixed Network Products and Services for Businesses

In business customer solutions last year, there were increasing demands for faster, more reliable and safer information transmission in data and voice communication and Internet access. Cost-efficiency was of course demanded as well. Companies mainly focus on their core activities, and therefore for design and administration of communications solutions they seek a strong and reliable partner. Increased demand for converged solutions from a single supplier is linked to this. Customers have started to perceive the new T-Com brand as a comprehensive supplier providing products and services not only in telecommunications, but in other fields too.

Business customer care in 2006 above all consisted of care of key and large accounts. Most firms in this group operate in services, production and the public and finance sectors. In 2006, small and medium enterprises were grouped under business customers and a new SME sales channel was established.

Voice Services Already Offering Unlimited Calls

Among the most popular of traditional voice programmes are the Biznis Partner (Business Partner) plans. These are designed for small and medium-sized enterprises with branches in several locations that use traditional analogue lines and ISDN connections. These calling plans enable cost-effective telephone communication, providing the customer with full convenience. Customers are charged on the grounds of second-based billing from the first second, for local, national, international and mobile calls. Business customers can use the free minutes included in Biznis Partner for calling abroad as well. In addition to advantageous base call prices, time-based billing and a number of combinable price reductions, they also offer new functions for even better optimisation of customers' voice communications.

As of 1 October 2006, legal entities and individual businesspeople had a choice from a broadened offering of calling plans for a traditional line and ISDN. Customers with classic telephone lines can use one of four new plans: Biznis Uni 50, Biznis Uni 150, Biznis Mesto and Biznis Slovensko. With Biznis Uni 50 and Biznis Uni 150, Slovak Telekom, a.s. offers free minutes for calling fixed and mobile networks in the Slovak Republic, fixed networks in international charge bands 0 and 1, and for calling the Hlas cez Internet (Voice over the Internet) service. Customers get unlimited local calls in the fixed network with the Biznis Mesto plan, and with Biznis Slovensko clients can make unlimited local and national calls in ST's fixed network. Starting in October 2006, business customers with an ISDN line could activate Biznis ISDN Uni plans in two versions. These plans include free minutes for calling to fixed and mobile networks in the Slovak Republic, fixed networks in international charge bands 0 and 1, and calling the Hlas cez Internet (Voice over the Internet) service.

The Intelligent network services, chiefly represented by the free-phone number 0800 and shared cost number 0850, are becoming more and more popular. Considering the increasing number of callers, traditional high quality of these services, and their comfortable management via web portal, they are an ideal tool for communicating with customers and enhancing revenue and satisfaction. Slovak Telekom, a.s. constantly analyses changing customer needs, allowing dynamic adjustment of products to current customer requirements.

New Data Programmes without Having to Have a Classic Telephone Line

Data communication is the first prerequisite of a converged solution for business customers. Specific requirements for speed, backup, mobility or type of applications utilised, determine the choice among virtual private networks among those based on MPLS VPN (virtual private networks based on multi-protocol label switching), Business CityNET and Business Net services. Slovak Telekom, a.s. prepared many innovations in 2006, including the possibility of mobile access to virtual private networks, enabling safe access to corporate networks whenever and wherever necessary. The MPLS VPN service is a communications solution based on advanced Multiprotocol Label Switching technology and functionality, providing customers with quality, speed and safety of transmitted data, and saves on communications costs between the client's branches. The service is used for setting up a virtual private network (VPN) for the user on mediated infrastructure. Communication via the MPLS VPN service is conveyed by means of IP internet protocol with MPLS functionality.

The importance of the Internet as a communication medium continues to grow, and it is becoming an obvious necessity. Customers have appreciated the quality, speed and reliability of T-Com fixed symmetric connection. When combined with such supplementary services as electronic mail, webhousing or webhosting, it has come to stand for a convenient solution to customer needs.

On 1 May last year, Slovak Telekom, a.s. expanded its Internet service portfolio by four new Vysokorýchlostný internet Plus (High-Speed Internet Plus) programmes. The quartet of Internet Maxi Plus, Internet Pohoda 2000 Plus, Internet Office Plus and Internet Biznis Dynamik 5000 Plus are designed for customers who wish to use a high-speed connection without a conventional telephone line. The new programmes are billed simply, in a single fee, because they include both DSL access and online service. Customers have thus been able to select from two programme types, both of which offer permanent connection unrestricted by time. Depending on their demands and particular needs, they could opt for programmes with either prepaid monthly data volume or flat programmes, i.e. with unlimited data volume.

Virtual VoiceNet, a modern virtual private branch exchange solution, continues to gain in prominence. This NGN-based (Next Generation Network) service is a flexible solution not requiring much investment, which in addition to traditional PBX functions also allows the use of numerous advanced functions. With its very advantageous call prices it is ideal for voice communication as part of a converged solution.

Overall Solutions for Business Customers

April 2006 was a break-through month for the business customer service offering. On that month Slovak Telekom, a.s. introduced a unique integrated solution entitled IP Office, marketed under the new T-Com brand. This service is an ideal solution for start-up and existing small companies and individual businesspeople. IP Office offers a practical combination of voice services, high-speed DSL internet connection, faxing and modern PBX functions, thus covering all the client’s communication needs. The service profile was partially changed during the year. For instance, the IP call accounts finally became unlimited, and customers could call all fixed networks in Slovakia, VoI networks and fixed networks in international charge bands 0 and 1. The Company provided this upgrade to all new and existing customers of this service.

Slovak Telekom, a.s. offers the IP Office service in four variations to suit the service demands of individual businesspeople and small and medium-sized enterprises. IP Office Start is designed for a single user. With this programme a customer gets an interesting combination of unlimited calls, unrestricted Internet and a modern private branch exchange or fax services at a favourable price. Other variations are designed for multiple users: IP Office Light for two users, IP Office Optimal for four and IP Office Intensive for eight users.

A great advantage of the IP Office service is the possibility to compile a specific programme profile matching one’s own preferences. For example, the data programme type can be decided depending on whether the firm can do with a particular prepaid data volume or requires an unlimited flat connection at an advantageous price.

Fixed Network Services for Other Telecommunications Service Providers

Slovak Telekom, a.s. enjoyed a very good year in wholesale services. Under challenging circumstances it exceeded revenues forecasts, mainly thanks to wholesale products innovations, new models of cooperation and customer partnership.

In 2006, Slovak Telekom, a.s. prepared changes to its most important wholesale products, Carrier Backbone, Carrier Link and ISP Gate. These offer wholesale conditions for interconnectivity of the single points of a telecommunications carrier (PoP), collection of traffic from end users to carrier PoP, and connection to the ST broadband network. The main changes concerned commercial conditions of services, band width provided, and service quality. The innovations not only met with a positive response from Slovak Telekom, a.s. customers, but also doubled total revenues from those products year-on-year.

One of the important steps by the Company in the wholesale area last year was beginning cooperation with wholesale partners concerning broadband access to the Internet. Slovak Telekom, a.s. prepared a wholesale model of ADSL access, launching in March 2006 ADSL Partner, a product bundling Internet network access and fixed line. By means of broadband access purchased from Slovak Telekom, a.s., Internet service providers (ISPs) could then provide their services to end users. The ISPs thus gained new opportunities to provide more comprehensive services. A total of 18 companies contracted for the ADSL Partner service with Slovak Telekom, a.s. in 2006.

In May, Slovak Telekom, a.s. brought to market the long-awaited wholesale product of Internet access unbundled from the fixed line, ADSL Partner Naked, and launched the new VoI Partner wholesale service. The provider can thus install the ADSL Partner Naked programme without the end user having to install a calling plan on its the main telephone line or ISDN, so the end user need not have any contractual relationship with Slovak Telekom, a.s. The wholesale model of access sale contributed to the expansion of ADSL as the preferred technology for Internet access.

Slovak Telekom, a.s. continued interconnecting with voice networks of international VoIP operators via NGN technology last year, completing these interconnections with another ten operators in Central Europe. It has also opened the door to a new wholesale business area: hubbing, i.e., transiting of international traffic, which became the main source of cooperation with international carriers. Revenue from the hubbing service was almost 28% of total wholesale service revenue in the past year.

Cooperation with foreign carriers also intensified last year in other services. By opening the Kyiv PoP in February 2006, the T-Com brand established itself in Ukraine. Slovak Telekom, a.s. started selling international leased lines in Kyiv as well as IP transit, and interconnecting networks with alternative VoIP voice operators in Ukraine. Slovak Telekom, a.s. thereby built a bridge between Ukraine and Western Europe for the provision of international data and voice services.

Making the product portfolio more attractive in 2006 provided a good basis for further development of wholesale activities in the coming year. New wholesale models and products under preparation, mainly based on IP technology, will enable Slovak Telekom, a.s. to intensify cooperation with its customers even more and build the perception of Slovak Telekom, a.s. as an innovative wholesale partner.

Services in Radio and TV Signal Broadcasting

Rádiokomunikácie, o.z. is currently arranging for radio and TV broadcasting, distribution of modulation and capacity for data business via radio-relay routes, and digital satellite radio and TV broadcasting. The company's dominant market position, know-how, existing pole network, technological structures, qualified employees and the experience in operating digital satellite broadcasting in the DVB-S format, all position it to build and operate the best country-wide digital television in the DVB-T format in Slovakia.

In 2006, the Telecommunications Office of the Slovak Republic postponed the deadline terminating pilot digital TV operation from 30 June 2006 to 30 June 2007. Rádiokomunikácie, o.z. has therefore been continuing in operation of the SFN network in the locations of Banská Bystrica-Zvolen and Bratislava and its surroundings, a total of 5 transmitters. Success in digital pilot broadcasting tenders is a basic precondition for Rádiokomunikácie, o.z. to be able to continue regular broadcasting, anticipated in late 2007 or early 2008. The international arrangements stipulate that analogue TV broadcasting is to be terminated by the end of 2012.

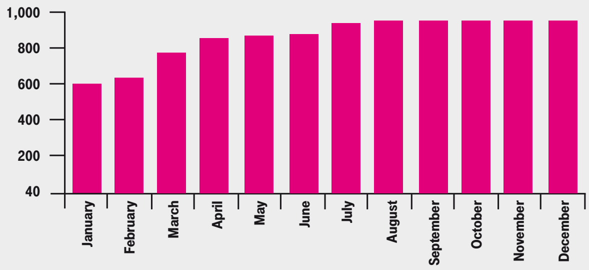
Financially, Rádiokomunikácie, o.z. continued its trend of increasing efficiency in 2006. Revenues amounted to SKK 0.9 billion, and EBITDA was 49% at the current headcount of 332.

Commercial Call Centre Services

The beginning of 2006 brought a name change for the branch, with Commercial Call Centre, o.z. renamed Call Services, o.z. The portfolio of services offered remained unchanged. One part of activities is to provide customer care to T-Com clients; commercially, the emphasis is on inbound outsourcing services (info lines, helpdesks, ordering lines, free-phone lines), outbound outsourcing services (active telephone contact of customers) and back office services (processing and archiving of requests, correspondence and surveys). The services are offered in several languages for clients home and abroad, mostly in the sectors of banking, insurance, telecommunications services, entertainment, energy, automotives and others.

There are currently 974 operating seats in Call Services, o.z. located in Košice, Prešov, Žilina, and Bytča. The branch employs 779 employees, with approximately 300 part-timers, freelancers and personnel leasing employees in addition.

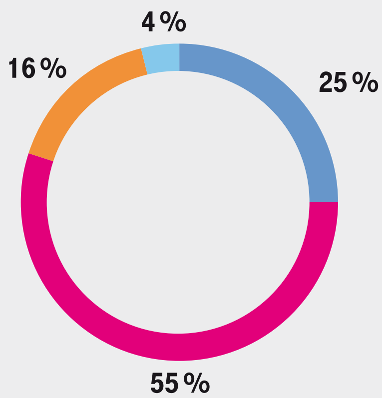
Trends in Agent Seats in 2006



One of the branch's greatest successes in 2006 was the stable growth of the Info Asistent service of DAS (Directory & Assistant Services). This service was honoured at the 118 AWARDS – Manchester International Assistance Conference with the "Outstanding Achievement in the 2006" prize, given for the most significant DAS progress worldwide, taking into account the quality and development of services offered to the customer.

Along with improving customer care quality, Call Services, o.z. increased sales year-on-year by 42.5%, and the Vysokorýchlostný internet product share increased from 31% to 46% of company sales.

Number of agent seats allocated to T-Com, Slovak and foreign companies



- Information and operator-assisted services
- T-Com (product sales and customer support services)
- External services for foreign companies
- External services for domestic companies

All in all, 2006 was a year of growth, learning and expansion into the CEE region.

What was new in 2006:
- PDS (Predictive Dialing System), used for automatic calls to the customer database, was implemented in branch locations.
- The Knowlagent system, used for agent trainings, also implemented in call centre operations in Prešov, Žilina & Košice.
- Call Services, o.z. have put into operation the www.callservices.sk web page, where both potential clients and potential employees can learn more about the commercial activities of Call Services, o.z.

Mobile Network Products and Services

Voice Services for Residential Customers

In April 2006, T-Mobile Slovensko, a.s. brought a true novelty to the Slovak market: Fix plans, representing a unique combination of prepaid and postpaid plan advantages. The Fix plans enable the customers to keep monthly payments fully under control as with prepaid cards, while bringing the favourable call and telephone prices of postpaid plans. With the Fix plans, the customers use a minimum fixed monthly credit, which they can recharge in the course of the month. With the advantageous Fix plans, customers can select mobile phones at special prices starting at SKK 1.

For customers who used competitor services only in order to retain their telephone numbers, T-Mobile Slovensko, a.s. brought out the Prenesenie čísla (Number Portability) service on 29 May. The service lets competitor customers change to T-Mobile Slovensko, a.s. and enjoy all its advantages while keeping the original telephone number.

Membership in the T-Mobile division enabled T-Mobile Slovensko, a.s. to bring customers the benefits of receiving calls and sending SMS/MMS for free on T-Mobile carrier networks in the Czech Republic, Germany, Austria, Hungary, Croatia, Holland, Great Britain and the USA in summer last year. T-Mobile thus enabled its customers to be in free contact with their nearest and dearest or business partners during holidays abroad. With the Svetový roaming (World Roaming) service, the countries are divided into four zones, with a single price valid for each of them.

Many T-Mobile Slovensko, a.s. promotional offers valid in 2006 were targeted and communicated as ideal for the family segment. For example, the company gave parents the possibility to arrange for their children to call at absolutely no cost.
All customers that activated the plans Relax 60 or 55Viac or higher by 30 September gained a toll-free Fix plan along with it, which provided monthly credit of up to SKK 200 for two years. The customers were offered a choice of plans from among the Rýchly internet (Fast Internet) service for 6 months free of charge, and thus ensure free Internet connection for their families.

Data Services

T-Mobile Slovensko, a.s. brought its customers a new dimension in mobile communication in 2006, as the first operator in Slovakia to put UMTS FDD 3G technology into commercial operation. With it, customers can communicate with their nearest and dearest by both voice and picture, seeing them directly on their mobile phone display. In August, the company presented HSDPA technology in the UMTS network, which allows customers to connect mobile phones to the Internet at speeds of up to 3.6 Mbps.

Extension of Rýchly internet service coverage to 70% of the Slovak population was one of the most important data service milestones in 2006. This made the service the most accessible Internet broadband solution by far. Thanks to increasing transmission rate to 5.3 Mbps (download) and 1.8 Mbps (upload) in August, the Rýchly internet service also became the fastest mobile broadband Internet connection in Slovakia.

T-Mobile Slovensko, a.s. brought another new item to the Slovak market in 2006: the BlackBerry solution, widespread and popular worldwide, which gives the customer e-mail box access wherever and whenever necessary. BlackBerry is an ideal solution for companies and businessmen; it can be used on special BlackBerry terminal devices or some mobile telephones. T-Mobile Slovensko, a.s. also brought its residential customers full mobile access to e-mail and the Internet under the name BlackBerry Internet E-mail.

Launching the new T-Mobile Speedmanager Service for faster Internet work was a significant plus for customers. The service makes it simple for customers using the GPRS/EDGE and UMTS/HSDPA data connection to increase web page loading speed. T-Mobile Speedmanager gives customers transparent data communication optimisation, enabling Internet connection customised to users' particular needs.

Internet Content Services

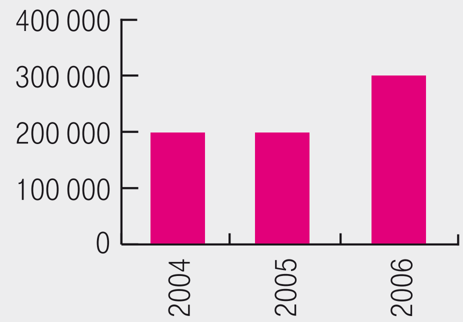
In 2006, T-Mobile Slovensko, a.s. experienced increased interest in Internet content services. Roughly half of the company's customers used at least one of the services offered, mainly interested in the T-Mobile brand services of the t-zones portal zones. The most popular services were Download zone content (ring tones, wallpaper, videos etc.), but Volacie tóny (Calling tones) saw significant interest as well. T-Mobile Slovensko, a.s. has achieved top penetration in Slovakia of this service. Significant and increasing interest in several SMS and WAP contests and games and in Java games emerged in the second half of the year. Compared to 2005, customer count, operation and turnover were all on the rise. Of the services newly launched in 2006, stream services, specifically TV and Video on Demand, for which the offering increased throughout the year, are worth mentioning. T-Mobile Slovensko, a.s. also obtained a licence for GSM and UMTS TV.

Special attention was given three content topics in 2006: Music (sponsorship and support content for top concerts and new albums – specifically of stars like Robbie Williams, the Slovensko hľadá superStar II (Slovakia Pop Idol II) project, and the music charts t-music); Film (Internet content and movie contests for Doba ľadová 2 (Ice Age 2), Piráti Karibiku 2 (Pirates of the Caribbean 2), Da Vinciho kód (The Da Vinci Code), and Autá (Cars) among others) and top sports events (in particular World Cup 2006). All these Internet content services saw a turnover increase of approximately 20%.

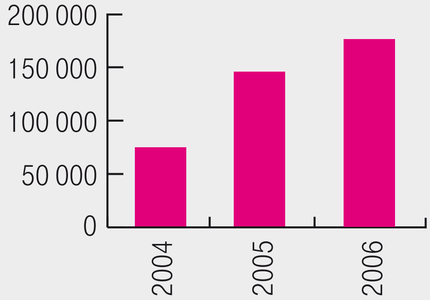
Arranging for the voting in the Slovensko hľadá superstar II (Slovakia Pop Idol II) project was another significant activity in the third-party Internet content area. Teletext chatting also met with great success (increasing by almost 100% compared to 2006). Large-scale TV balloting, one of the most popular activities in 2005, decreased (in some cases dropping by as much as 100% compared to 2005).

Internet Content Download Quantity

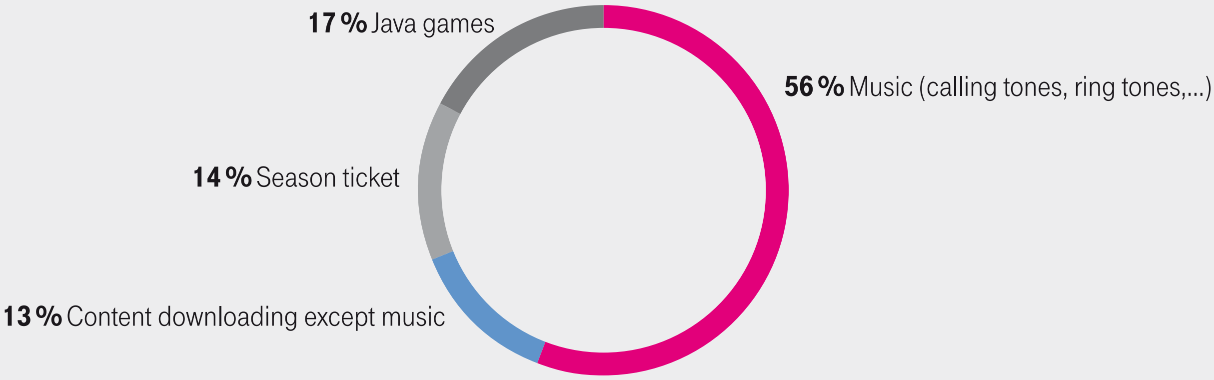
Number of Downloaded Games



Unique Users of Calling Tones Service



Share in turnover of the Internet content downloading



Services for Business Customers

In 2006, T-Mobile Slovensko, a.s. extended its voice service offerings with new Podnikateľ (Entrepreneur) monthly plans mainly designated for individual businesspeople and small businesses, with advantageous calling for this customer segment too.

To small and medium-sized companies, T-Mobile Slovensko, a.s. brought a unique innovation in the form of Firemné balíky (Corporate packages), making communications costs extraordinarily more transparent and effective. Firemné balíky offer business customers the possibility of a common calling plan shared by several employees with advantageous call prices to all networks throughout Slovakia and the Czech Republic.

The world-known BlackBerry solution for convenient mobile access to business e-mails, Internet, and to contacts, calendar and task lists stored in a PC anywhere in the world with the GPRS coverage, was the most awaited innovation in the business customer segment. In 2006, significant changes occurred in the Smart roaming service, designed primarily for frequent international travellers. These customers pay no connection fee per single call (a standard monthly fee is billed), and receive the calls within all T-Mobile networks throughout Europe 24 hours a day and totally free of charge. Beyond this, T-Mobile Slovensko, a.s. in 2006 extended usage of data services, for example for remote access to customers' VPNs and remote data collection.

Slovak Telekom Group to Increase the Rate of Innovation

The Slovak Telekom Group will continue offering new technologies, products and services in 2007. The Group is continuing to watch and stay on top of world-wide telecommunications trends, and focus on increasing customer satisfaction. This endeavour will result in value-added services and multiple new offerings, pushing forward the entire Slovak market. All Slovak Telekom Group services will undergo innovation.

A higher influence of IP-based voice services can be expected in the area of fixed line voice services. While existing voice line plans still enjoy sufficient popularity and each new product type was ordered by more than 100,000 customers in the past period, voice transmission services over the Internet will experience a boom in the years to come. Slovak Telekom, a.s. will more frequently be offering voice over the Internet to business customers with major or more specific needs than addressed for example in the IP Office package.

In data services, launch of the new ADSL 2 technology is expected, which will have a great influence on both Internet and content services in the Slovak market. The new technology will make it possible to compile an even wider portfolio of programmes and satisfy higher user demands on data transmission. Upon deployment, ADSL 2 technology customers can also be offered richer Internet portals, and multimedia for downloading, or direct real-time viewing, of higher quality in terms of both voice and picture.

Thanks to higher-speed ADSL 2 technology, Triple Play-based services will further experience a boom under the T-Com brand (for example through introduction of programmes with faster Internet access), but mainly the huge potential of the platform will be exploited. Users will be able to browse e-mails or Internet sites on their televisions. They will be able to chat with other users by means of various emoticons or other types of communication. Digital television will also become more interactive, through betting and voting. The possibility of recording programmes at home from outside via the Internet or mobile telephone will also be attractive. Triple Play will bring even more programmes, a richer Internet movie database and plenty of new and interesting content.
Mobile services next year will also be heavily influenced by the start-up of the third operator, but T-Mobile Slovensko, a.s. will continue to implement its strategy: to be closer to its customers, providing them with an increasing number of flexible services. This effort can be seen with the very first products introduced in 2007, emphasizing the provision of the family-focused services so that each family member and their specific consumption type are taken into account. With the functioning of three operators and the potential arrival of virtual operators, competition will become keener in all areas. In the beginning, both the third and the virtual operators will encroach on prepaid business, where T-Mobile, as an existing operator, will continue to support the established Easy brand. In the second half-year, the competition will focus on the postpaid voice services, where the new operator will move in on several segments. The new market players are likely to primarily target voice services, but T-Mobile Slovensko, a.s., representing unique and advanced data technologies, will be strengthening its FLASH-OFDM technology, which it was the first operator in the world to apply. The aim for 2007 is clear: to markedly improve its usage, including available upgrades in mobile data transmission, in all regions of Slovakia. T-Mobile will also be monitoring the 3G network development and their add-ons. Regarding content, more intensive multimedia penetration can be expected, more often delivered directly to mobile phones. However, provider content services interconnectable with specific telephone functions, such as music or other files on demand, will have even higher potential. Retention activities will be key in the mobile services

area since, because of the extremely high cell phones penetration in Slovakia, the third operator (and maybe also the virtual operator) will primarily be addressing existing customers. T-Mobile Slovensko, a.s. will therefore strive to offer customers the best services possible and to increase their satisfaction.

The application of the new technologies will be reflected in both Slovak Telekom Group markets, the fixed line and mobile networks. Better voice and more importantly data services will also be provided to business clients, with the Group also presenting specific plans or comprehensive solutions to meet their needs. Product segmentation depending on customer needs in several groups by number of users, and an individual approach to services, will continue as well.

Information Technologies Oriented to Customers

Information technologies (IT), while classified as supporting processes, play a crucial role at Slovak Telekom, a.s. IT support the company's core business – the production, installation and sales of telecommunications services and solutions. Key components of IT strategy for 2006 were supporting IP-based products (IP – Internet Protocol), efficiency and synergy and, last but not least, stability and security of operations.
As such, the demands placed on Slovak Telekom's IT are based on customer orientation, modernisation of network core and the complexity of the new NGN network technology environment. While the usual time required for preparation, production and launch of a new product using traditional technology (and also operation and sales systems) at Slovak Telekom, a.s. was 3 – 8 months, in the NGN and IP environment this time-to-market period requires shortening the time to several weeks. In order to achieve this dramatic time reduction, Slovak Telekom would have to streamline and standardize production, to automate processes for IT documentation, including running production phases in parallel and automating product testing. Primarily, the Company would have to harmonize its disparate product design teams, network and technology teams, and IT teams. Throughout 2006, the IT unit of Slovak Telekom, a.s. made this a major priority of its IT strategy, and will do the same going forward in 2007.

Top IT Projects in 2006

Last year began with a simple yet challenging task for IT, to increase the quality and effectiveness of the Finance unit's billing processes. Together, specialists from IT and finance implemented the Geneva Health Check project, focused on due diligence of the entire Geneva billing system. By modernizing and optimizing system storage functions (disk arrays) for the financial department's business-critical systems, the team was able to increase system performance and shorten billing procedure time. As a result, the billing system is more stable, errors are minimized and billing processes are shorter by approximately 60%.

Pursuing close cooperation between the IT and product and sales units led to quickly and successfully implementing IT support solutions for the company's IP-based products (high-speed internet, VoIP, Internet television), resulting in the comprehensive Magio service. IT specialists contributed to supporting also other IP products, such as IP Office, ADSL Partner and ADSL Partner TV. Part of the synergy with T-Mobile Slovensko, a.s. was to implement a common broadband internet product. Customer relationship management (CRM) was also greatly improved by implementing customer database solutions for Siebel Loyalty and Knowlagent , as well as excellently managing a Siebel upgrade (dubbed the SIAN project) analytic phase.

Major achievements in the operational support area include the implementation of two support solutions: the SP&A (Service Provisioning and Assurance) System 1.5 project and a uniform fault clearance system (Trouble Ticket Management), put in place for all services provided by Slovak Telekom, a.s. SP&A systems contributed to very good sales of IP-based products. Customers can now easily check DSL service availability, and as far as service installation is concerned, the two solutions helped reduce lead times and increase efficiency upon installations.

The IT team of Slovak Telekom, a.s. also successfully cooperated with the Company's business units to improve its Business Intelligence (customer behaviour analysis). A new technology module, resulting from the Data Warehouse project, helps management intelligently analyze customer behaviour, interpret marketplace trends using a real-time decision-making tool. The overall result is an increase in the Company's competitiveness. Two other modules – implemented Revenue Assurance, which secures earnings, and Churn Prediction, which anticipates customer dissatisfaction – helps the business units address revenue gaps and their coverage and increase customer loyalty. Last year Slovak Telekom, a.s. IT specialists concluded the analytic phase of the Data Warehouse II project; and thus improvements in On-line Analytical Processing (analytical processing in real-time) and Data Mining for 14 lines of business are expected in 2007.

Strategically, the Information Technologies Unit of Slovak Telekom, a.s. focused its attention on outsourcing solutions and infrastructure for more effective synergy. Significantly, the unit cooperated to restructure the billing processes with the Billing Subunit, and with T-Mobile Slovensko, a.s., found an outsourcing solution for corporate print shop and envelope services. Two other outsourcing projects, relating to the Finance Unit, Real Estate Administration and Logistics, were also undertaken.

Successful IT implementations rely on a stable infrastructure. Here Slovak Telekom, a.s. developed a new strategy for managing data storage based on advanced technologies. The Company sees possibilities for optimisation in reviewing the criticality of its solutions and in implementing virtualisation. Last year also saw improved performance and stability of its data centres and bolstered internal IT network with crucial security features.

Operational stability and security in IT has always been regarded as fundamental, but in 2006 this area was vitally strengthened by the SOX 404 remediation project. Based on a system of audit controls that adhere to internationally defined principles of the Sarbanes-Oxley Act, is of great significance for IT. As part of this remediation project, Slovak Telekom, a.s. focused on public key infrastructure (PKI), a technology that considerably increases the security and integrity of internal and external communication along with internal user data. Another project worth mentioning is SIMS, a security information monitoring system.

Further Prospects in Information Technologies

As far as Information technologies are concerned, 2006 was successful, if difficult. Redefining the IT department's main role as one of implementing IP strategy and analysing customer behaviour was the right move. Key tasks in the period to come include: supporting the launch of Magio and other broadband Internet products, finalising and fine-tuning operation support systems for IP-based products, and optimising the Geneva billing system, the Siebel customer database and the technical document registry system (Cramer). Furthermore, the IT and Division of Production and Services are preparing to improve platform architecture for on-line service activation.

The telecommunications product market is a volatile one. One of the consequences is a real risk of high-profile "brain-drain". Slovak Telekom, a.s. is adopting a sound human resources strategy to minimize this risk, offering interesting and motivating work. The Company will also reduce the complexity of its products and services by replacing part of old or outdated IT tied to older products with new and simpler ones, thus creating a simplified IT environment. It can be assumed that the telecommunications market will continue to change over the upcoming few years and consumers will mostly choose from all-inclusive, flat-rate service packages capable to accommodate all their communication needs. Modern telecommunications firms, including Slovak Telekom, a.s., will also offer other, less frequently used services via online commerce from the moment of ordering, through on-line checking of service quality check or billing, up to payment.

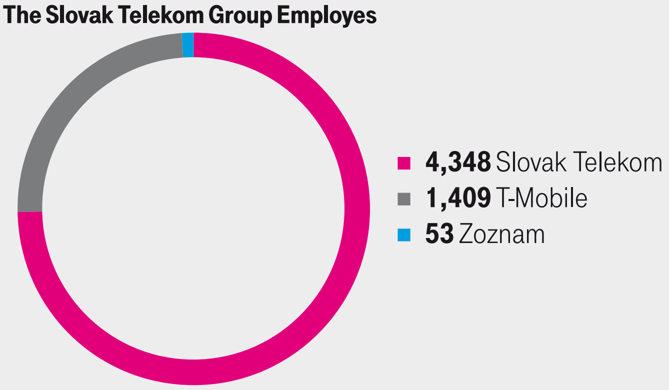
New Demands on Employees

The telecommunications market in Slovakia is very dynamic, because of rapidly developing and changing technologies as well as competition. This is obviously valid for the factor most crucial for any company: the employees. The biggest challenge for company managements and human resources management is to create corporate culture and conditions attractive for qualified, capable employees which motivate and stimulate them to top-quality performance.

Slovak Telekom Group companies apply an array of tools to shape corporate culture, from employee hiring and selection, through compensation, motivation, development and training, up to the key employee retention programmes, career planning and the like. Considering the high level of market competition, the Group must also consider human resources expenses, i.e. optimum headcount and increased effectiveness. The strategic aim to employ high-profile and better compensated employees (given the focus on effectiveness) has been applied in the Slovak Telekom Group for several years.

The Slovak Telekom Group employed 5,810 employees at the end of 2006.
Slovak Telekom, a.s. had 4,348 employees (including the branch staff and expatriots from parent company), of which 60% were men and 40% women.
In the given period, T- Mobile Slovensko, a.s. employed 1,409 full-time employees and Zoznam, s.r.o. together with Zoznam Mobile, s.r.o. 53 people.
As of 31 December 2006, the average age of a Slovak Telekom, a.s. employee is 38. Over 40% of employees have a full university education, and 60% secondary school. Some 30% joined the Company within the last 5 years. During 2006 Slovak Telekom, a.s. (including branches) hired 1,217 new people from outside, and 2,103 employees left the Company.
The headcount of Slovak Telekom, a.s. dropped by 3,000 between 2004 and 2006.
This period saw approximately 300 employees leaving Slovak Telekom, a.s. for outsourced employers. Outsourcing of real estate administration, internal services and registry, print shop services, interpreting services and logistics did not mean that the employees concerned lost work. On the contrary, all those outsourced were transferred to new employers and continue their work under the same conditions.
Besides outsourcing, Call Services was established as a separate branch in January 2006, taking all employees from call centres and operator services.
During the 2004 – 2006 transformation period at Slovak Telekom, a.s. a dramatic headcount reduction occurred.
The employer provided good conditions for employees leaving due to organisational changes, including above-average severance payments and re-training allowance. Slovak Telekom, a.s. paid out severance of over SKK 550 million, and contributed SKK 62 million to re-training during these years.

The Slovak Telekom Group Employes



Employee Survey

In September 2006, a Deutsche Telekom Group employee satisfaction survey aimed at collecting employee feedback, and giving employees space for expressing interest in participating in both company operations and improving working conditions. 147,500 employees took part in the survey, representing 68% of staff. This was the second time employees of Slovak Telekom, a.s. took part in such a survey. Some 64% of employees expressed their opinion in an extensive questionnaire, a higher rate than in 2005 by 8%. Based on employee satisfaction survey results, the management of Slovak Telekom, a.s. defined its priorities for 2007:

- to create managerial tools for proper communication and utilization of the compensation system aimed at encouraging individual and Company performance,
- to improve customer-centric and performance-oriented corporate culture through providing honest feedback and open communication,
- to continue in process simplification and reengineering.

Team discussion of survey results translated these priorities into individual organisational unit action plans, defining activities for the upcoming period.
The 2006 employee satisfaction survey confirmed that Slovak Telekom, a.s. employees desire to be informed about Company strategy and objectives and to implement them, and they expect their contribution to fulfilling corporate goals to be recognized.
Also significant is the rise of the survey's credibility in employees' eyes. There is an increasing number of those who believe that survey results are used to improve the work. The active attitude to employee satisfaction survey results correlates to the assessment of all indices monitored. Thus the survey is an important tool for managers, contributing to the improvement of corporate culture, interpersonal relations and customer service quality, as well as employee performance.

T-Mobile Slovensko, a.s. took part in the employee satisfaction survey in the Deutsche Telekom Group for the first time last year, with 81% of employees taking part. The high participation rate is a proof that this instrument has become a stable component of corporate culture over the past 6 years.
The most positive results appeared in the following areas: loyalty to company, satisfaction with work assigned and with T-Mobile Slovensko, a.s. in general, trust in top management, satisfaction with direct superior, and co-operation with closest colleagues.
The questions with the best evaluations (there were eight in number) are a strong indicator of employee self-assessment. 97% of them think they have the skills to handle the assigned work, and 94% say they can provide their customers with appropriate services and care. Other positive responses related to employee loyalty towards the company and proved the existence of company's respectful environment in dealing with employees regardless of age, sex, ethnic group or nationality, denomination or position.

T-Mobile Slovensko, a.s. considers the fact that employees understand the reasoning behind the strategy "to become the most highly regarded service company" to be the most significant finding from the employee satisfaction survey. 89% of the employees believe and are willing to continually improve service quality such that the company retains its market competitiveness into the future. Continual improvement of internal processes, systems and applications is closely related with this goal.

Based on the survey results, the management of T-Mobile Slovensko, a.s. set out the main priorities for 2007 at its regular meeting in December 2006:

- to streamline internal processes so as to enable employees to satisfy the external customer expectations,
- to create opportunities for professional development,
- to continue in the established communication of company strategy to employees, linking the strategy to individual objectives
- to compensate and motivate exceptional employee performance.

Employee Development and Compensation

In addition to customary training courses to support the business, Slovak Telekom, a.s. implemented managerial training for heads of departments and teams on the transformation process. 151 managers obtained new skills in six modules.
Training specialists introduced e-learning as a training method, internally creating 20 e-training courses and 4 external trainings. Last year, Slovak Telekom, a.s. was awarded the prestigious HR Oscar for its EDUCA portal, an electronic education management tool.

Slovak Telekom, a.s. defined a new compensation in 2004; the policy puts greater emphasis on converting performance into salary. The base period for setting and evaluating goals was changed from monthly to quarterly. New compensation was designed for all Company positions, especially for IT and IP specialists. In 2005 the compensation of 98% of employees was performance-based, proving that Company managers had accepted the new system. The system targets on longer-term periods in order to retain key players, and requires higher responsibility on the part of managers in motivating and compensating the best performance.

There were a total of 1,673 participants in T-Mobile Slovensko, a.s. training activities in 2006, with an average of 3.2 training days per employee. The average amount spent on education and training totalled SKK 28,991 per employee.
Training primarily targeted development of employees in direct contact with customers, and leadership skills in managers.
A new platform entitled Leadership session, designed for exchanging managerial experience among in-house leaders and leaders from other companies operating in the Central European market, was introduced to a managers.
Numerous courses were conducted by internal employees of T-Mobile Slovensko, a.s. to transfer internal know-how. These included Labour Code legislation, employee selection interviews, product training, and telecommunications business basics.

In 2006 T-Mobile Slovensko, a.s. employees were also given the chance to get feedback through development tools (such as personality questionnaire, Start-Stop-Continue, 360 feedback, and Development Centrum). 189 employees, mainly in management positions or those preparing for them, applied actively to participate. Another 26 managers developed theirs skills via external coaching.

Career Opportunities

In 2006 the pilot project “Kariérne príležitosti” (Career Opportunities) was launched in Slovak Telekom, a.s., focusing on supporting employee career development in the Company. The pilot phase outcome defined career paths for job positions included in the pilot project, as well as other solutions aimed at career support within Slovak Telekom, a.s. The pilot phase was evaluated as a successful and the project will continue in 2007 and involve the entire Company.
Career paths and career planning for all employees have been established in T-Mobile Slovensko, a.s. since 2005.
The pilot project “Expertné kariérne dráhy” (Expert Career Paths), dedicated to selected employees of the Information Technologies Division and the Operations & Technology Division to support the development of top experts in these areas, started in 2006. The pilot phase outcome defined career paths and development tools for individual job positions included in the pilot project. The pilot phase was evaluated as successful and the project will continue in 2007, with the aim to identify key experts in other business functions of the company as well, and ensure their continual development.
In 2006 T-Mobile Slovensko, a.s. carried out Talent Club, its first development programmes for employees involved in career planning (preparations for their first managerial position or for upper managerial positions). The programme involved 83 employees, who appreciated the possibility to participate as well as the quality of the programme. 17% of the participants have already been internally promoted to upper management positions within the company. A total of 66 newly hired managers underwent the New Manager development programme, comprising several modules to develop the managerial skills expected from a T-Mobile Slovensko, a.s. manager. For both of the above programmes, T-Mobile Slovensko, a.s. was awarded the third prize in the 2006 national HR Oscar event.

Cooperation with Universities

Slovak Telekom, a.s. continued its intensive cooperation with students and the secondary and higher education community in 2006. The highlight of the cooperation was the second annual Students’ Conference TELEKOM DAY 2006, held in November and hosting over 100 university students and teachers. The main topic of the conference was the new Magio product, with other current telecommunications and information industry topics and trends. A team representing various Company business units also took part in the students’ event ‘Národné dni kariéry’ (National Career Days), where Slovak Telekom, a.s. took four prizes: first place in the Best Booth and Best Firm categories, and second place in the Best Communication with Students and Best Job Offer categories.

Human Resources Directions in 2007

The employee structure in Slovak Telekom Group companies is subject to the enormous pressure of changes required in both quantity and quality. In 2007, changes in this dynamic competitive environment and in technology will mean for Slovak Telekom, a.s. a lesser need for traditional voice traffic employees and increased need for specialised experts in data, internet and network applications. During 2007, the utilisation of synergies and cooperation will intensify within the Group. This will result in bringing values and corporate culture closer together, fostered by intense cooperation to strengthen perception of the Company as a customer-centric service organisation.

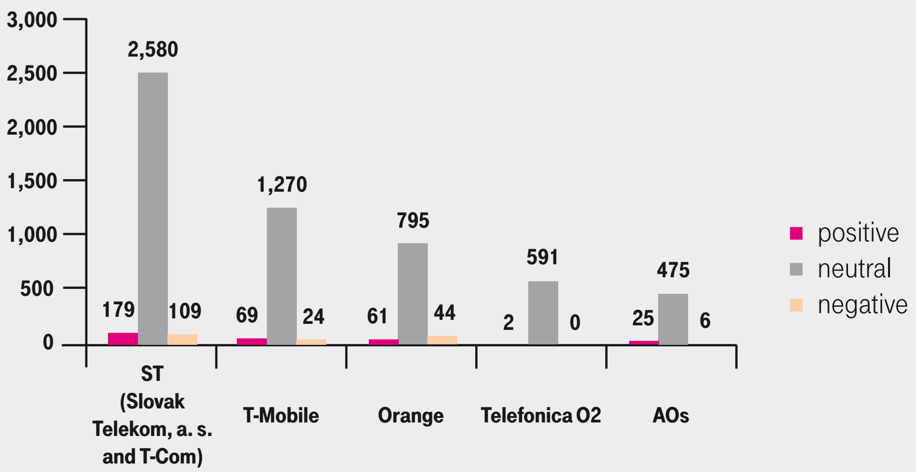
Creative but Effective Communication

As a customer-centric group, Slovak Telekom includes among its long-term priorities systematic, honest and open communication, both externally and internally. The communication strategy of Slovak Telekom Group focuses on support of sales of products and services, reputation building, and providing objective information about activities, business and operations of Group companies.
The launch of the T-Com brand in spring was a significant milestone in Group communication in the past year.
The Company's marketing communication focused on building the new brand, its stable positioning on the market, and creating customer preference. Communication also continues to pursue primary marketing goals such as supporting launch of new products and services, client education, and protection of the T-Com brand in crisis situations. Throughout 2006, marketing communication of T-Mobile Slovensko, a.s. strived to further strengthen and develop the T-Mobile brand. Surveys indicate that the company achieved the saturation line of T-Mobile brand awareness in Slovakia (GfK survey data: spontaneous awareness 91.2%, prompted awareness 97.7%). The figures clearly show that T-Mobile today is among the brands enjoying the highest awareness in Slovakia.

The Company aims to do its best to ensure all target groups receive accurate, sufficiently fast and quality information. Slovak Telekom aligns its communication activities not only with Deutsche Telekom Group's employee Code of Conduct policies, but also along the internationally recognised principles of the Sarbanes-Oxley Act. In extraordinary situations, the Company follows Crisis Communications Manual principles.

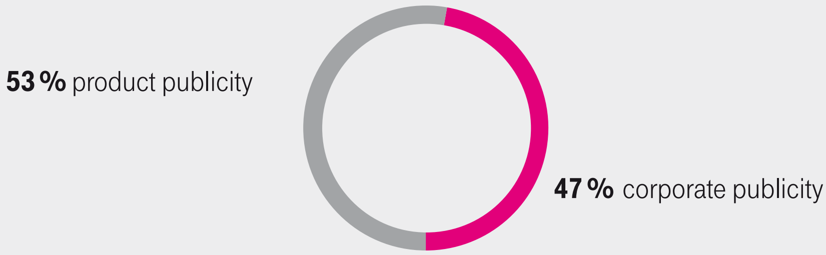
Slovak Telekom Group in Media
Over the long term, Slovak Telekom has been in media focus, as company activities considerably impact the Slovak telecommunication market and society as such. In 2006, external communication teams of Slovak Telekom, a.s. and T-Mobile Slovensko, a.s. generated 3,886 media outputs, with objective publicity clearly dominating (97 % of all outputs).

Number of media outputs in 2006



The media focused chiefly on topics related to legislation, regulation and corporate themes, as well as product-based topics concerning voice, Internet and data services.

Product and corporate publicity of Slovak Telekom Group



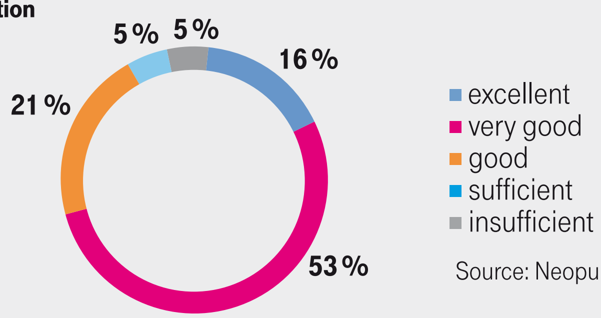
Corporate Communication

Corporate communication at Slovak Telekom, a.s. encompasses a wide array of activities, from media communication, through providing expert positions to governmental, public, and professional institutions and associations, internal communication with company employees, administration and updates of company presentation on the Internet and at various forums, to building relations with the general public. At the same time, corporate communication strives to increase awareness of Slovak Telekom, a.s. as a company which, apart from its business activities, also helps improve quality in all aspects of societal and public life.
Open and active corporate communication facilitated an ever-increasing perception of Slovak Telekom, a.s. as a customer-centric company. Also, a shift on the field of customer care has been perceived positively, and the social image of Slovak Telekom, a.s. strengthened significantly.

External communication activities were influenced by the existing situation on the telecommunications market as well as by other players' communication. Strategic goals of external communication in 2006 reflected the overall corporate strategy. Mainly, this concerned the comprehensive communication of products and services provided, along with presentation of positions of Slovak Telekom, a.s. on various topics related to regulation and overall developments in the telecommunications market.

The major communication challenge for the external communication team at Slovak Telekom, a.s. was supporting the change of corporate identity and launch of the new T-Com brand for the general public. Aligned to a common goal and thanks to very close cooperation with marketing communication, the external communication team achieved spontaneous awareness of the T-Com brand of almost 80% at year-end. T-Com also enjoyed the highest spontaneous awareness among the most commonly known telecommunication service providers in Slovakia (source: GfK, Advertising Tracking Study, November 2006 wave).
In December 2006, the PR agency Neopublic Porter Novelli conducted a media audit for Slovak Telekom, a.s. The audit's quantitative analysis focused on the quality of external communication compared to market competitors. The results indicate positive changes in external communication activities. Most respondents from among business, IT and lifestyle journalists considered activities of external communication in 2006 very good (55%) to excellent (22%).

External communication evaluation



Source: Neopublic Porter Novelli

Slovak Telekom, a.s. presented information on a regular basis about its key activities through the international intranet portal TeamNet. TeamNet is a closed user information platform for all business and organisation units that make up Deutsche Telekom Group. The portal presents corporate news, technological innovations, market developments and activities related to companies' corporate social responsibility. The Communication Subunit at Slovak Telekom, a.s. provides regular flow of information to the parent company. In 2006, Slovak Telekom, a.s. featured 25 published articles on TeamNet, covering key events of the year, from announcement of financial results through rebranding information to sponsorship activities.

In 2006 T-Mobile Slovensko, a.s. communicated many significant activities, products and services. At the end of January 2006, T-Mobile Slovensko, a.s. promoted the first videocall made over the UMTS network in Slovakia, by organising a videocall session between the CEO of the company and finalists of the popular contest Slovensko hľadá SuperStar II (Slovak Pop Idol II). The media showed significant interest in communicating the innovation, as the event marked the first international call on the 3G network.
Launch of the BlackBerry solution, which T-Mobile Slovensko, a.s. was the first mobile operator to present in Slovakia, also positively resonated in the media. The exclusive BlackBerry device became a regular presence in all technology columns in Slovak media.

Also in 2006, internal communication at Slovak Telekom, a.s. served as an unparalleled instrument for development and strengthening of corporate culture. Pursuing its principal goal, to inform and motivate employees, the internal communication team of Slovak Telekom, a.s. was presenting and opening key topics related to company activities. Building on external communication, internal communication in 2006 focused primarily on supporting the launch of the new T-Com brand and change of the Company's business name. The extensive internal campaign emphasised the thorough adaptation of the new corporate identity and its proper use by employees. A calendar containing a new brand communication manual became the basis for an extensive employee training programme. Attitude towards the new brand was successfully built thanks to creative competitions, a unique brochure Recipes from the T-world (awarded "Best Brochure of the Year" in the Slovak corporate media contest), and joint celebration of the new brand launch.
In Slovak Telekom, a.s., information is disseminated to staff not only via the internal magazine and the Intranet portal but also in the form of intra-company television news, which has been received very positively. The TV programme, together with short in-house films, received the highest award in the Slovak corporate media contest "Medium of the Year".
In 2006, all internal communication channels concentrated on company transformation topics known as eNGine, implementation of the new Turnaround for Growth strategy, customer orientation, and continuous company development aimed at greater effectiveness. A dedicated intranet interactive tool for customer service improvements, Customer Voice, facilitated resolution of many specific customer problems and complaints. Internal communication devoted special attention to timely and high-quality communication of the organisational changes related to the comprehensive company restructuring programme. Topics linked to career, professional development and employment alternatives after being released from Slovak Telekom, a.s. were among those most frequently sought by employees. Further, Project Arena on the corporate intranet set up a contest for project managers; and the discussion programme "Neformálne" (Informally) introduced the entire top management, with employees having the opportunity to actively participate by asking questions and providing their comments.
The quality and integrity on internal communication is borne out by the fact that 97% of employees who took part in the Company's employee satisfaction survey in 2006 considered the corporate intranet a credible source of information and expressed satisfaction with the portal. 92% of respondents expressed satisfaction with the internal journal Sme Tu.

In 2006, Germany hosted the FIFA world championship. Deutsche Telekom AG was one of the principal sponsors of this momentous event. Slovak Telekom, a.s. also facilitated promotion of the partnership between the T brand and the world's most popular sport. The Communications Subunit regularly reported on preparations for the event. The corporate web page www.slovaktelekom.sk included a dedicated section with information on the championship sponsorship. The pages featured an address by the CEO of Deutsche Telekom AG, news and interesting information from the preparations and an audiovisual presentation. During the tournament, company press releases featured the official logo of the event. The corporate intranet presented 17 articles featuring the championship backstage, from stadium technical facilities to presentations of national teams. The total visitor rate on the intranet exceeded 13,000 hits. The internal journal Sme Tu featured eight football articles. Special attention was dedicated to the largest employee football tournament worldwide – World Cup United – organised by Deutsche Telekom AG. The Slovak Telekom team won an impressive second place in the international competition. More than 2,900 employees viewed a documentary showing their success on the intranet.

In 2006, internal communication in T-Mobile Slovensko, a.s. pursued the goal "to become the most highly regarded service company" and achieve the corporate culture principles on which the company focused on in all of its communication activities. An extensive campaign promoting Service Culture started in early 2006 with the introduction of strategic initiatives to all employees. This campaign's principal idea was that Corporate Principles are not abstract, general and distant from regular activities; quite the opposite. The campaign showed how they apply to everyday company life. This is why the campaign was based on statements by the employees themselves, their perception of corporate culture and personal experience.

Employees appeared in a film promoting a customer-centric corporate culture, and become part of campaigns on the intranet and the employee magazine, with their faces featured on posters decorating all premises of T-Mobile Slovensko, a.s. During the year, all Corporate Principles were introduced in direct association with ongoing projects and activities. The most interesting include a Dress Code, new Best Practice intranet site enabling requests for any work materials from any other national T-Mobile company, Service Hero employee voting, Empowering Frontlines international project, and the third annual unique grant programme for T-Mobile employees, "T-Mobile Supports the Community".
The November meeting of members of the Board of Directors of T-Mobile International with front-line employees, which took place during the "One Company" month, and the year-end employee meeting "simply closer" held in Bratislava, made for a noteworthy campaign conclusion.

T-life – Platform for All
In December 2006, a new joint communication platform for Slovak Telekom Group employees was established. T-life, an intranet portal, is determined to become the fundamental information bridge linking employees of the companies Slovak Telekom, a.s. (T-Com), T-Mobile Slovensko, a.s., Zoznam, s.r.o., Zoznam Mobile, s.r.o., Call Services, o.z. and Rádiokomunikácie, o.z. This simple, convenient site contains information about key events in the life of individual companies within the Group, new products, services, technologies and marketing campaigns, sponsorship, philanthropic and volunteer activities, and leisure time information.

The establishment of a joint intranet portal of Slovak Telekom Group is a part of the ever-increasing communication synergies between Slovak Telekom, a.s. and T-Mobile Slovensko, a.s. Despite the fact that coordination of communication activities has not been formalised, both the external environment and employees of both companies consider it to be a natural development.

Marketing Communication

For marketing communication as for the entire Slovak Telekom, a.s., the key challenge in 2006 was the corporate identity change project and launch of the new T-Com brand. The previous brand, Slovak Telecom, was withdrawn from the market at the peak of a very high acceptance rate by customers. In the assessment of an independent panel of marketing and communication experts, it was awarded the Super Brand award. For the first time in its history, Slovak Telekom, a.s. launched a brand which, in line with the communication strategy of Deutsche Telekom, is linked exclusively to communication of products and services. Shortly after its launch, the T-Com brand positioned very strongly in customer perception. Today, T-Com is spontaneously perceived as the provider with the largest portfolio of telecommunication services in Slovakia (source: GfK, Advertising Tracking Study, November 2006 wave).
Introduction of the T-Com brand in spring 2006 was based on a unique interactive campaign concept, which saw a successful start and an immediate shift of the brand into the targeted market position. The campaign was introduced via a thriller-type story without a conclusion, referring to the www.t-com.sk page that hosted three alternative endings to the story. Over three weeks of airing, the site had 100,000 unique visitors, out of which 52,000 voted for their preferred ending. 6,000 visitors took part in a subsequent contest and developed their own ending for the story. The campaign further made use of unique and original media, such as mysterious ringing of payphones with reference to a surprise at the site www.prekvapenie.com (www.surprise.com). Other communication activities also aimed at supporting the new brand's launch into the world of Internet and web-based entertainment.
A speciality of T-Com brand marketing communication is communication in the form of packages. Over a specific time period (usually 2-3 months), the packages communicate, using a unified creative idea, several inter-related but separate stories. This approach makes it possible to introduce the target group to various T-Com products and services within a given period of time. Communication of T-Com is based on the principles of relevant marketing, and rejects "image for the sake of image". Each story in the communication package thus presents the specific benefits of specific products, enabling T-Com to provide consumers with a clear answer to the question "what's in it for me?"
T-Com brand marketing communication has achieved respect and recognition. The national creative festival Zlatý klinec (Golden Nail), the rebranding campaign of T-Com won a bronze nail. Still more estimable successes were achieved abroad. The T-Com brand triumphed in the creative contest Zlatá pecka (Golden Stone), receiving the main prize, the Golden Stone, for the TV spot "Western – more lives" promoting Games on Demand service. The rebranding TV spot featuring an open-ended story was shortlisted into a group of tough international competitors.
The Golden Drum international advertising festival in Portoroz saw the T-Com brand made it on to three shortlists: for the T-Com rebranding campaign, for creative use of media and interactivity in the rebranding campaign, and for the TV spot "Western – more lives". The greatest success in this area came in the form of two shortlists at the most prestigious advertising competition worldwide, Cannes Lions 2006. T-Com was shortlisted in the category of media use for the interactive rebranding campaign, and in the category of TV spots for rebranding featuring the open-ended story. Yet best proof of proper T-Com brand communication is the success scored with Slovak consumers. Brand communication soon became the subject of

positive discussions as well as TV parody shows. It replicated in everyday communication between people, becoming human and part of popular culture. Only attractive and extraordinary brand communication could have achieved this effect. The most prominent award that T-Com brand communication won in 2006 was, after all, the outstanding sales results the brand achieved.

In 2006, T-Mobile Slovensko, a.s. continued strengthening and building the T-Mobile brand. Surveys indicate that the company achieved the saturation line of T-Mobile brand awareness in Slovakia (GfK survey data: spontaneous awareness 91.2%, prompted awareness 97.7%). The figures clearly show that T-Mobile today is among the brands enjoying the highest awareness in Slovakia.

The key topic of 2006 was promotion of mobile broadband Internet access, marketed by T-Mobile Slovensko, a.s. under the product name Rýchly internet (Fast Internet). The company considers its most significant progress in this area to be increase in service coverage to 70% of Slovakia's populace. The quality and intensity of above-the-line and below-the-line communication was at a level corresponding to this success.

An important step in T-Mobile Slovensko, a.s. communication was the introduction of the new claim, "simply closer", connected with new visual aspects and positioning of the brand. Last year, the T-Mobile brand focused on the segment of young people. Probably the most visible example of this orientation can be seen in the exceptional integrated marketing communication project of the competition SuperStar II (Slovak Pop Idol II). The unconventional communication solution scored success not only in Slovakia but also internationally, receiving an internal corporate T-Mobile Media Award.
In 2006 T-Mobile Slovensko, a.s. promoted projects on an international level too. Examples of such activities include the sponsorship of pop idol Robbie Williams, a series of Electronic Beats events (with the successful concert of the British band The Prodigy in Bratislava), and the association of T-Mobile with football.

For telecommunications market development, 2007 will be a great challenge for existing market players. The market entry of a strong and internationally positioned mobile operator will stimulate even fiercer competition. The strategy of the Slovak Telekom Group will continue to position T-Com and T-Mobile as synonymous with modern, attractive and high-quality services, both for managing work duties and for entertainment.

Corporate Social Responsibility of Slovak Telekom Group

Slovak Telekom, a.s. as one of the major companies in Slovakia significantly influences the standard of life in the Slovak Republic via its services. The ambition of the Company's business is not, however, simply to meet shareholders' expectations of profit generation while adhering to legal regulations. Slovak Telekom, a.s. also cares about how it can contribute to enhancement of the life quality of Slovak people.

On one hand corporate social responsibility (CSR) strategy in the Slovak Telekom Group reflects the requirements of social and civil life, and on the other hand it is in line with the corporate responsibility principles of the Deutsche Telekom AG parent company. The companies of the Group are striving for people to remember their brand not only as the telecommunications leader providing services for all Slovak residents, but also as an example of social responsibility.

Slovak Telekom, a.s. and T- Mobile Slovensko, a.s. as founding members of the Business Leaders Forum have contributed to the support of its activities, aiming to disseminate corporate social responsibility principles, create higher ethical business standards, contribute to sustainable development and, by applying the principles of responsible business practices, to foster community-wide growth.

Last year, Slovak Telekom, a.s. was internally preparing for membership in the Corporate Donors Club within Donors Forum, becoming a member at the beginning of 2007. Corporate Donors Club members strive for transparent donation policy, adhering to the Ethical Codex of the corporate donor. This platform will bring the company more effective communication with the non-governmental sector, and regular, independent and professional evaluations of CSR activities and their real influence on the community.

The Top Corporate Philanthropist contest, organised by the Donors Forum for the second time in 2006, also honoured Slovak Telekom, a.s., which placed third among major donors with SKK 11.6 mil. donated by the Company to activities beneficial to the public.
Slovak Telekom, a.s. mainly focused its activities on four areas last year:

- Support of citizens' digital literacy,
- Support of unique cultural and sports projects,
- Corporate philanthropy aimed at enhancing the life quality of low or no income groups or otherwise disadvantaged people,
- Corporate volunteering with the aim of supporting the activities of selected communities.

Slovak Telekom, a.s. Contributed to Slovakia's Image of a Modern Info-Communication Country

Slovak Telekom, a.s. also continued with internetisation and education of the residents of Slovakia under a new brand, via implementation of the complex eSlovakia programme. The first "magenta" project, Internetizácia materských centier (Internetisation of Mother Centres) was prepared by the company in co-operation with the Union of Mother Centres. Within the project, 41 Mother Centres received from Slovak Telekom, a.s. a two-year Internet connection free of charge by the end of 2006. Along with this, the Company supported the education of women on maternity leave in the field of PC and Internet literacy, and some clever mothers became PC instructors under the Mamičky www.každom.veku (Mothers at any age) education project.

In 2006, Slovak Telekom, a.s. further focused its digital literacy support activities on the Slovak educational system. For students of secondary schools, the Company prepared for the third year the successful competition eTablo, for which 21 classes preparing to obtain high-school diplomas registered.

In April 2006, the company advertised the first year of the contest Cena Slovak Telekom (Slovak Telekom Award). It targeted the creativity and inventive approach of teachers in applying info-communication tools in educating students, and supporting exchange of best practice using computers and the Internet in school subjects. Over the more than five months of the contest over 180 teachers registered their efforts. They competed in the categories of elementary, secondary and special schools. Based on a 12-member expert commission's evaluation, the most creative teachers won valuable financial prizes from Slovak

Telekom, a.s. The 186 works they elaborated has provided the basis of a useful virtual library, available for those interested at www.cenast.sk.

The eSlovakia project, within the scope of which all these activities took place, was intended to enhance the internetisation and informatisation of the community. As part of it, the successful project Počítače pre školy (PCs for Schols) historically became the largest activity in informatisation of Slovak elementary and secondary schools in 2004. This has given Slovak Telekom, a.s. something to build on in its eSlovakia programme via additional projects.

Slovak Telekom, a.s. also continued its tradition of donating used computers last year, during which the Company supported 33 organizations last year, donating nearly 360 PCs and 120 PC peripherals. Most of these computers were donated by Slovak Telekom, a.s. to schools, non-profit organisations, hospitals and disabled individuals.

Support of Culture

In the cultural sphere, the Slovak Telekom brand has long been associated with unique projects. In the past year, the company's assistance focused on theatrical art, specifically by continuing co-operation with the Astorka Korzo '90 Theatre in supporting the W. Shakespeare play Romeo and Juliet, and via partnership with the Aréna Theatre. The Aréna Theatre is presenting a series of controversial personalities of recent Slovak history, as part of which Slovak Telekom, a.s. supported the highly successful performance Dr. Gustáv Husák in October 2006.
General partnership of the historic first literary contest Román 2006 Slovak Telekom (Novel 2006), in which 97 promising Slovak writers participated, was direct support of cultural development. The support of Slovak Telekom helped this ambitious project advance original Slovak literature, test the talent of the Slovak prose-writers in large-scale epic formats, and discover new writers. The commission awarded the main prize, in its transparent evaluation of anonymous works, to the renowned author Viliam Klimáček, while two talented newcomers, Michaela Rosová and Daniel Štefanec, received special financial prizes.

Corporate Philanthropy

Slovak Telekom, a.s. regularly funds projects which help people in need. The company contributes to improve the life of the inhabitants of Slovakia, and on a long-term basis co-operates in country-wide projects prepared by both domestic and international charity organisations.
In 2006, Slovak Telekom, a.s. continued its long-standing support of the Linky života (Life Lines) project. Since 2003 it has continuously financed the professional advisory centres and the operation of Nezábudka (Forget-me-not) Help line 0850 11 10 22 and Linka záchrany (Emergency Support Line) 0850 11 13 13. These provide counselling to people with psychological difficulties, and in health and life-threatening situations in cases of accidents. Each line serves on average 15,000 – 20,000 calls per year.

Slovak Telekom, a.s. has been supporting the initiative of the Association of Friends of Children from Children's Homes, Úsmev ako dar (The Smile as a Gift) for several years. In 2006, the company supported the 24th year of the beneficial concert with the longest tradition in Slovakia, which brings to the forefront the issue of children living without their parents. For just as long, Slovak Telekom, a.s. has also participated in implementing the project of Nadácie pre deti Slovenska (Foundation for the Children of Slovakia), Hodina deťom (Hour for Children), via the operation of telephone line 18 222 for financial donations. In 2006 Slovak Telekom, a.s. improved the system of co-operation, adapting the implementation process to make it more effective and transparent towards donors and the Foundation. Last year, the company also for the first time supported the Civil Association Šanca pre nechcených (Chance for the Unwanted), which provides multilevel assistance to unwanted children and their mothers. Slovak Telekom, a.s. became general sponsor of the Náruč záchrany (Arms of Rescue) initiative, under which a country-wide tour of charity concerts was organised in eleven towns and cities of Slovakia. They targeted raising finances for facilities for women who, despite the harsh situation they faced, decided not only carry to term and give birth, but also to raise their child. Through purchase of computers, Slovak Telekom, a.s. supported the activities of Združenie na pomoc ľuďom s mentálnym postihnutím (Association for Help to People with Mental Handicap in Slovak Republic), whose mission is to integrate mentally handicapped people into everyday life, to be accepted as they are. In 2006, Slovak Telekom, a.s. enabled children from low or no income families to take part in children and families' camps organised by the Klub podnikových médií (Corporate Media Club) and the Združenie saleziánskych spolupracovníkov na Slovensku. (The Association of Salesian Collaborators in the Slovak Republic). The company also supported the Sociálny taxík (Social Taxi) project and operation of a local call centre of social aid implemented by the city of Nitra. The financial means provided have been used to transport old and infirm residents to health centres and hospitals and for the operation of a call centre to provide help to people in social need.

Corporate Volunteering

Along with furthering nationwide philanthropic activities, Slovak Telekom, a.s. has developed its own projects. Employees are willing to give a helping hand and devote their time to productive volunteer work. Last year, the employees of Slovak Telekom, a.s. continued helping in the High Tatras areas afflicted with natural disaster. In the course of three voluntary weekends, thanks to the activity of 92 employees of Slovak Telekom, a.s. and T-Mobile Slovensko, a.s., debris wood was removed, ground was prepared for new tree planting, and the creek at Tatranská Lomnica was cleared. The employees of Slovak Telekom, a.s. also participated in surface-flooding of the Tatra woods: deviation of the creek's flow and creation of an irrigation canal and a small artificial lake in the Vodný les at Tatranská Lomnica. Last year's voluntary weekends came up with something new, which was co-operation with Slovak Scouting and the administration of the Tatras National Park, which organised voluntary work helping the staff of Slovak Telekom, a.s. with the general technical support.

In the past year, the company's employees also dedicated their free time to collaboration with the Slniečko (the Sun) crisis centre for abused women with children near Nitra. Two weekends spent together were linked with work in the garden and surroundings, but also with fun activities like the Santa Claus gift-giving event and a collective baking of Christmas gingerbread.

CSR Activities of T-Mobile Slovensko, a.s.

"Simply closer" is a promise made by T-Mobile Slovensko, a.s., and not only in its services as a mobile operator. The company's activities also have social, economic and environmental dimensions. Sponsoring and philanthropy are a part of its business, wherein the company supports a number of organisations, activities and projects throughout Slovakia via direct financial contributions, supplies of products and services, corporate volunteering or other forms of support.

T-Mobile Slovensko, a.s. has been co-operating with the Slovenský zväz sluchovo postihnutých (Slovak Union of Deaf and Hearing Impaired) for five years. Those with hearing impairments use mainly SMSs, MMSs and data service to communicate among themselves, and therefore T-Mobile Slovensko, a.s., in an effort to provide better and simpler services to this target group, has trained 23 Slovak sales persons to communicate in sign language. T-Mobile Slovensko, a.s. is at present the only company in Slovakia offering the possibility to communicate without the presence of an interpreter or having to use pen and paper. September 2006 saw the second year of sign language training. Sales persons from 19 T-Mobile shops in the regions of Bratislava, Banská Bystrica, Žilina and Košice, under professional trainers, learned the basis of sign language and finger alphabet, as well as specific features of the target group, and the types of mobile phones preferred and services used by them. Practical experience suggests that the hearing impaired are deeply interested in this service, and that they highly appreciate the opportunity of being enabled to purchase mobile phones, have services activated or choose the most suitable calling plans according to their individual needs, all via sign language.

In 2006, for the third year the company instigated its Program malých grantov (Small Grants Programme), focused on community activities in co-operation with the Pontis Foundation. The "T-Mobile pomáha komunite" (T-Mobile Supports the Community) programme is intended to support innovative ideas to improve life in the community in which the company's employees live or from which they come, create opportunities for active leisure time, and motivate volunteering and collaboration with local non-profit organisations. Over the three years of the programme, T-Mobile Slovensko, a.s. has supported 98 projects with the total sum of SKK 3,913,840.

The major focus of the Harmony Foundation of Peter Dvorský is to help the polio-afflicted children and their relatives. T-Mobile Slovensko, a.s. financially supported completion of a rehabilitation centre, thus contributing to the support and improvement of medical services for disabled children.

"We care about your safety" is one of mottos of the Mountain Rescue Service, a partner of T-Mobile Slovensko, a.s. for eight years. The company contributes to the MRS's work through arranging complex mobile telecommunications services and mobile data communication services. It also operates 24-hour emergency line 18 300.
In 2006, T-Mobile Slovensko, a.s. participated in the mobile fund-raising carried out by the Civil Associations Liga proti rakovine (Deň narcisov) (League Against Cancer (Narcissus Day)), Liga za duševné zdravie (Nezábudka) (League for Mental Health (Forget-Me-Not)), Únia nevidiacich a slabozrakých Slovenska (Biela pastelka) (Slovak Blind and Partially Sighted Union (White Pencil)), Ľudia proti rasizmu (People Against Racism) (Pamätník obetiam rasového násilia a extrémizmu (Monument to the Victims of Racial Violence and Extremism)), Nadácia pre deti Slovenska (Hodina deťom) (Foundation for the Children of Slovakia (Hour for Children)), and Pontis (5P Project).

The activities of the Slovak Telekom Group in the area of philanthropy, corporate social responsibility and sponsoring activities will also reflect the strategies of its companies and communicate the values of its corporate and business brands in a socially active way in 2007. Corporate social responsibility is a permanent and integral part of the corporate values professed by all companies within the Slovak Telekom Group.

IV. Results of Slovak Telekom Group

Slovak Telekom, a. s.

Auditor's Report and IFRS Consolidated Financial Statements

31 December 2006

Contents

All amounts are in millions of Slovak crowns, unless otherwise stated

Consolidated Income Statement

for the year ended 31 December

	Notes	2006	2005
Fixed network and broadband		13,821	14,122
Mobile communication		15,484	13,994
Other		342	160
Total revenue	5	29,647	28,276
Staff costs	6	(3,707)	(3,783)
Material and equipment		(3,247)	(2,548)
Depreciation and amortization	11,12,13	(10,499)	(9,618)
Interconnection fees		(3,805)	(3,567)
Other operating costs, net	7	(5,667)	(6,003)
Operating profit		2,722	2,757
Financial income	8	150	225
Financial expense	9	(446)	(498)
Profit before tax		2,426	2,484
Taxation	10	(533)	(649)
Profit for the year from continuing operations		1,893	1,835
Discontinued operation	11	330	154
Profit for the year		**2,223**	**1,989**

The consolidated financial statements on pages 72 to 107 were authorised for issue on behalf of the Board of Directors on 14 March 2007 by:

Ing. Miroslav Majoroš
Chairman of the Board of Directors
and President

Szabolcs Gárborjáni-Szabó
Member of the Board of Directors
and Senior Executive Vice-President

All amounts are in millions of Slovak crowns, unless otherwise stated

Consolidated Balance Sheet

as at 31 December

	Notes	2006	2005
ASSETS			
Non-current assets			
Property and equipment	12	40,220	44,963
Intangible assets	13	17,342	18,589
Prepaid expenses		574	516
		58,136	64,068
Current assets			
Inventories	16	271	398
Trade and other receivables	17	3,725	3,729
Prepaid expenses		272	323
Income tax		222	1
Cash and cash equivalents	18	4,433	3,785
		8,923	8,236
Assets of disposal group and other assets held for sale	11	2,594	46
		11,517	8,282
TOTAL ASSETS		**69,653**	**72,350**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital		26,028	26,028
Share premium		11,632	11,632
Statutory reserve fund		1,385	1,222
Retained earnings		12,431	9,992
Other reserves		4,061	4,446
		55,537	53,320
Minority interest		-	3
Total equity	19	55,537	53,323
Non-current liabilities			
Interest-bearing borrowings	20	-	2,805
Provisions	22	203	196
Deferred tax	10	5,710	5,671
Other payables and deferred income	21	538	823
		6,451	9,495
Current liabilities			
Interest-bearing borrowings	20	-	632
Trade and other payables and deferred income	21	6,352	7,065
Provisions	22	1,181	1,317
Income tax		-	518
		7,533	9,532
Liabilities directly associated with assets classified as held for sale	11	132	-
		7,665	9,532
Total liabilities		14,116	19,027
TOTAL EQUITY AND LIABILITIES		**69,653**	**72,350**

All amounts are in millions of Slovak crowns, unless otherwise stated

Consolidated Statement of Changes in Equity

for the year ended 31 December

		Attributable to equity holders of the parent						
	Notes	Share capital	Share premium	Statutory reserve fund	Retained earnings	Other reserves	Minority interest	Total equity
Year ended 31 December 2005								
At 1 January 2005	19	26,028	11,632	1,183	12,003	4,779	-	55,625
Dividends		-	-	-	(4,300)	-	-	(4,300)
Hedging swaps		-	-	-	-	6	-	6
Allocation to funds		-	-	39	(39)	-	-	-
Release of revaluation reserve		-	-	-	339	(339)	-	-
Acquisition of subsidiary		-	-	-	-	-	3	3
Profit for the year		-	-	-	1,989	-	-	1,989
At 31 December 2005	**19**	**26,028**	**11,632**	**1,222**	**9,992**	**4,446**	**3**	**53,323**
Year ended 31 December 2006								
At 1 January 2006	19	26,028	11,632	1,222	9,992	4,446	3	53,323
Hedging swaps		-	-	-	-	(6)	-	(6)
Allocation to funds		-	-	163	(163)	-	-	-
Release of revaluation reserve		-	-	-	379	(379)	-	-
Acquisition of minority interest		-	-	-	-	-	(3)	(3)
Profit for the year		-	-	-	2,223	-	-	2,223
At 31 December 2006	**19**	**26,028**	**11,632**	**1,385**	**12,431**	**4,061**	**-**	**55,537**

All amounts are in millions of Slovak crowns, unless otherwise stated

Consolidated Cash Flow Statement

for the year ended 31 December

	Notes	2006	2005
Profit for the year from continuing operations		1,893	1,835
Profit for the year from discontinued operation	11	330	154
Adjustments for:			
Depreciation and amortization		10,566	9,858
Interest expense, net		62	207
Income tax expense	10	612	689
Gain on disposals of property and equipment		(236)	(198)
Foreign exchange (gain) / loss and other non cash items		(126)	40
Movement in provisions		(139)	700
Changes in working capital			
Change in trade and other receivables		54	(446)
Change in inventories		184	33
Change in trade and other payables		389	398
Cash flows from operations		13,589	13,270
Income taxes (paid) / received		(1,313)	58
Net cash flows from operating activities		12,276	13,328
Investing activities			
Purchase of fixed assets		(7,186)	(7,723)
Proceeds from sale of property and equipment		331	916
Acquisition of minority interests		(25)	(129)
Contingent consideration for acquisition of subsidiary	4	(25)	-
Interest received		150	127
Net cash used in investing activities		(6,755)	(6,809)
Financing activities			
Proceeds from borrowings		-	20
Repayment of borrowings		(3,366)	(4,449)
Payments on derivatives		(406)	(84)
Dividends paid		(800)	(3,500)
Interest paid		(267)	(383)
Net cash used in financing activities		(4,839)	(8,396)
Net increase / (decrease) in cash and cash equivalents		682	(1,877)
Cash and cash equivalents at 1 January		3,785	5,662
Cash and cash equivalents at 31 December	**18**	**4,467**	**3,785**

Notes to the Consolidated Financial Statements

Index to the notes to the consolidated financial statements

1. General information

These consolidated financial statements have been prepared for Slovak Telekom, a. s. (the Company or Slovak Telekom) and its subsidiaries T-Mobile Slovensko, a. s. (T-Mobile), Zoznam, s.r.o. (Zoznam), Zoznam Mobile, s.r.o. (Zoznam Mobile), RK Tower, s.r.o., TBDS, a. s., Telekom Sec, s.r.o. and Institute of NGN (together the Group).

Slovak Telekom was incorporated as a joint-stock company in the Slovak Republic on 1 April 1999. On 4 August 2000, Deutsche Telekom AG obtained control of the Company through the acquisition of 51% of the shares of Slovak Telekom. The transaction involved the purchase of existing shares from the Slovak Government and the issue of new shares. The Slovak Government retained 49% of the shares of the Company through the Ministry of Transport, Posts and Telecommunications of the Slovak Republic (MTPT) (34%) and the National Property Fund (15%). In 2005 the Board of Directors approved the change of the Company's business name, taking effect as of 8 March 2006, from Slovak Telecom, a. s. to Slovak Telekom, a. s.

The Company's subsidiary, T-Mobile, was founded in 1990 as a joint venture between Atlantic West B.V. (AWBV) and Slovak Telekom. On 31 December 2004 Slovak Telekom completed the purchase of the shares held by AWBV and became the sole shareholder of T-Mobile. On 24 March 2005 the name of the subsidiary was changed from EuroTel Bratislava, a. s. to T-Mobile Slovensko, a. s.

On 31 August 2005 the Company purchased 90% of the shares of Zoznam and 100% of the shares of Zoznam Mobile. On 30 June 2006, the Company acquired the remaining 10% of the shares in Zoznam.

The Company is the principal supplier of fixed-line telecommunication services in the Slovak Republic and owns and operates the majority of the telecommunications facilities therein. The Company provides local, national, and international telephony services and a wide range of other telecommunications services including leased lines, data networks and broadband as well as narrowband internet services. It also provides residential and business customers with products ranging from standard telephones to computer communication networks.

T-Mobile provides mobile telephony services in the 900 MHz and 1800 MHz frequency bands under the Global System for Mobile Communications (GSM) standard, in the 450 MHz frequency band under the Nordic Mobile Telephone (NMT) standard, and in the 2100 MHz frequency band under the Universal Mobile Telecommunications System standard (UMTS). T-Mobile commercially launched the NMT service in September 1991, the GSM 900 service in February 1997, the GSM 1800 service in November 1999 and the UMTS service in January 2006. T-Mobile also has been providing Managed Data Network Services in the Slovak Republic since November 1991. T-Mobile's business activities and customers are concentrated in the Slovak Republic.

Zoznam and Zoznam Mobile operate the internet portal www.zoznam.sk and develop mobile entertainment content and software for mobile phones.

Through the Company's branch Rádiokomunikácie, o.z. (Rádiokomunikácie Branch) and its subsidiary RK Tower the Group is also owner and operator of radio and television transmission equipment.

Registered office:
Námestie slobody 6
817 62 Bratislava
Slovak Republic

2. Accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except where disclosed otherwise in the accounting policies below. The Group's functional currency is the Slovak crown (SKK). The consolidated financial statements are presented in SKK and all values are rounded to the nearest million.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards adopted by the EU (IFRS).

Basis of consolidation

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December for each year. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using uniform accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognized in assets are eliminated in full.

All subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that control ceases.

A business combination is accounted for using the purchase method of accounting. An acquisition is accounted for at its cost, being the amount of cash and cash equivalents paid in exchange for control over the net assets of an acquired company, plus any cost directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary is recorded as goodwill. The same treatment is applied when accounting for the acquisition of minority interest. The Group uses the cost of the additional interest in the subsidiary and the fair value information at the date of this exchange transaction to determine the amount of the goodwill associated with the transaction.

2.2 Property and equipment

Cost

Property and equipment, except for land, is carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. The cost of property and equipment acquired in a business combination is fair value as at the date of acquisition. Land acquired prior to 1991 is stated at the values assigned to it by the Government and land purchased thereafter is carried at acquisition cost. Costs also include the estimated costs for dismantling and removing the asset and restoring the site on which it is located. Borrowing costs are not capitalized.

Cost includes all costs directly attributable to bringing the asset into working condition for its intended use. In the case of network, this comprises all expenditure, including internal costs directly attributable to network construction up to the network termination point within customer premises, and includes contractors' fees, materials and direct labor. Cost also includes the replacement costs of such property and equipment when those costs are incurred if the recognition criteria are met.

Maintenance, repairs and minor renewals are charged to the income statement as incurred.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized. Net disposal proceeds consist of both cash consideration and the fair value of non-cash consideration received.

Depreciation

Depreciation is calculated on a straight-line basis from the time the assets are available for use, so as to write down their cost to their estimated residual values over their useful lives. The depreciation charge is identified separately for each significant part of an item of property and equipment.

2. Accounting policies (continued)

2.2 Property and equipment (continued)
The useful lives assigned to the various categories of property and equipment are:

Freehold buildings	8 to 50 years
Duct, cable and other outside plant	30 years
Telephone exchanges and related equipment	4 to 13 years
Radio and television equipment	8 to 30 years
Other fixed assets	2 to 30 years

No depreciation is provided on freehold land and capital work in progress.

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted in accordance with IAS 8 where appropriate, at each financial year-end.

Property and equipment is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount of an asset is higher than its recoverable amount, it is written down to its estimated recoverable amount.

When property and equipment meet the criteria to be classified as held for sale, they are stated at whichever is the lower of their carrying amount and fair value less costs to sell and reclassified from non-current to current assets. The Group measures an item of property and equipment that ceases to be classified as held for sale at the lower of:

a) its carrying amount before the asset was classified as held for sale, adjusted for any depreciation and amortisation that would have been recognized had the asset not been classified as held for sale, and

b) its recoverable amount at the date of the subsequent decision not to sell.

2.3 Goodwill
Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortized but is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or Groups of units. Each unit or Group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

2.4 Intangible assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. With the exception of goodwill (see above), intangible assets have a finite useful life and are amortized using the straight-line method and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The useful lives and the amortization methods for intangible assets are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Licences are recognized as intangible assets when control is assumed; any payments made prior to control being assumed are recorded as prepayments. Amortization commences on the date of the commercial launch.

2. Accounting policies (continued)

2.4 Intangible assets (continued)
Costs that are directly associated with the development of identifiable and unique software products controlled by the Group and that will probably generate economic benefits exceeding costs beyond one year are recognized as intangible assets. The cost comprises all directly attributable costs necessary to create, produce and prepare the software to be capable of operating in the manner intended by management, including enhancements of applications in use.

The useful lives assigned to the various categories of intangible assets are as follows:

Customer contracts and related customer relationships	4 to13 years
Licenses	10 to 20 years
Software, brand and other	2 to 5 years

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are included in the income statement when the asset is derecognized.

2.5 Impairment of assets
At each reporting date the Group assesses whether there is any indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

The Group determines the recoverable amount of a cash-generating unit based on its fair value less costs to sell. The fair value less costs to sell is determined based on discounted cash flow calculations, which use projections based on financial budgets approved by management covering five or ten-year period. Cash flows beyond the detailed planning period are extrapolated using appropriate growth rates. Key assumptions on which management has based its determination of fair value less costs to sell include average revenue per user, customer acquisition and retention costs, churn rates, capital expenditures, market share, growth rates and discount rates. Cash flow calculations are supported by external sources of information.

The structure of the Group's cash-generating units for the purpose of general impairment testing is as follows:

Cash-generating unit	Recurrence of impairment testing
Slovak Telekom, excluding Rádiokomunikácie Branch	if triggering event occurs
Rádiokomunikácie Branch, RK Tower, TBDS (RK Business)	if triggering event occurs
T-Mobile	annually
Zoznam, Zoznam Mobile	annually

If the carrying amount of the cash-generating unit to which goodwill is allocated exceeds its recoverable amount, goodwill allocated to this cash-generating unit is reduced in the amount of the difference. If the impairment loss recognized for the cash-generating unit exceeds the carrying amount of the allocated goodwill, the additional amount of the impairment loss is recognized through the pro rata reduction of the carrying amounts of the assets allocated to the cash-generating unit. Impairment losses on goodwill are not reversed.

In addition to the general impairment testing of cash-generating units, the Group also tests individual assets if their purpose changes from being held and used to being sold or otherwise disposed of. In such circumstances the recoverable amount is determined by reference to market value less cost to sell.

2.6 Inventories
Inventories are stated at whichever is the lower of cost and net realizable value. Cost is calculated on a weighted average basis. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. An allowance is created against slow-moving and obsolete inventories.

2. Accounting policies (continued)

2.7 Trade and other receivables
Trade and other receivables are recognized and measured in accordance with IAS 39. Trade and other receivables, which generally have 14-60 days' terms, are recognized initially at fair value and subsequently measured at amortized cost less any allowance for impairment. The allowance recognized adequately reflects the expected credit risk. Trade receivables are grouped together on the basis of similar credit risk characteristics and tested for impairment. The loss recognized is measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows. The estimated cash flows are based on the past experience of the collectibility of overdue receivables.

Amounts payable to and receivable from the same international operators are shown net in the balance sheet when a right to set-off exists.

2.8 Derivative financial instruments and hedging activities
The Group uses derivative financial instruments to hedge the risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are recognized and measured at fair value through profit or loss, except where they meet criteria for hedge accounting.

The derivative financial instruments used by the Group are not traded in an active market and fair value is determined by using a variety of methods and assumptions that are based on market conditions existing at each balance sheet date. The fair values of derivative and other financial instruments are calculated as the present value of the estimated future cash flows at the current market interest rate for similar financial instruments.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are included in the income statement in the year in which they arise.

For the purpose of hedge accounting, hedges are classified as follows:

a) fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability;

b) cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecast transaction.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group applies hedge accounting, the risk management objective and the strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting of changes in fair value or cash flows and are assessed on an ongoing basis to determine that they have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges
Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognised asset or liability, or an identified portion of such an asset or liability that is attributable to a particular risk and could affect profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is re-measured at fair value and gains and losses from both are taken to profit or loss.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, if the hedge no longer meets the criteria for hedge accounting or if the Group revokes the designation.

Cash flow hedges
Cash flow hedges are a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognized directly in equity, while the ineffective portion is recognized in profit or loss. Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged financial income or a financial expense is recognised or when a forecast sale or purchase occurs.

2. Accounting policies (continued)

2.8 Derivative financial instruments and hedging activities (continued)
If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognized in equity are recycled to profit and loss.

2.9 Cash and cash equivalents
Cash and short-term deposits in the balance sheet comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of bank overdrafts. In the balance sheet, bank overdrafts are included in borrowings in current liabilities.

2.10 Trade payables
Trade payables are initially measured at fair value plus transaction costs. After initial recognition trade payables are measured at amortized cost using the effective interest method.

2.11 Leased assets
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases of assets in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment made to the lessor by way of penalty is recognized as an expense in the period in which the termination takes place.

2.12 Interest-bearing loans and borrowings
All loans and borrowings are initially recognized and measured at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

2.13 Provisions
Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognized for future operating losses.

If the effect of the time-value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks and timing specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

Termination benefits
Employee termination benefits are recognized in the period when a detailed plan listing the employees to be discharged is defined and authorised by management and the trade unions.

Asset retirement obligation
Asset retirement obligations relate to future costs associated with the retirement (dismantling and removal from use) of non-current assets. The amount of the asset retirement obligation initially recognized in the period in which incurred is considered an element of the cost of the related non-current asset in accordance with IAS 16. The obligation is accreted to its present value each period, and the capitalized cost is depreciated over the estimated useful life of the related non-current asset. Upon settlement of the liability, the Group either settles the obligation for its recorded amount or incurs a gain or loss upon settlement.

2. Accounting policies (continued)

2.13 Provisions (continued)
Customer loyalty programs
The Group operates customer loyalty programs. As part of the programs the Group grants credits to the participants which can be redeemed in future periods for free or discounted goods or services. A provision is recognized as expense when credits are granted to customers. The provision is reduced by the portion representing estimated awarded credits that are expected to be forfeited by the customers. The provision is utilized when the customers receive benefits from the program.

2.14 Revenue recognition
Revenue is recognized upon the delivery of services and products and customer acceptance thereof and to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue for rendering services and customer equipment sales is shown net of value added tax and discounts.

The Group recognizes revenue as follows:

Access fees and charges for incoming and outgoing telephone calls and other traffic are recognized in revenue in the period in which the service is rendered.

Activation fees are deferred over the expected customer retention period. This period is estimated on the basis of the anticipated term of the customer relationship under the arrangement which generated the activation fee. Costs incurred in providing the connection, to the extent of the activation fees, are recognized as an asset and amortized over the same period.

Interconnect revenue derived from calls and other traffic that originate in other operators' networks is recognized in revenue at the time when the call is received in the Group's network. The Group pays a proportion of the revenue it collects from its customers to other operators for calls and other traffic that originate in the Group's network but use other operators' networks.

Content revenue is recognized gross or net of the amount due to the content provider when the latter is responsible for the service content and the Group acts as an agent without assuming the risks and rewards of ownership of the services.

Revenue from multiple revenue arrangements is considered as comprising the identifiable and separable components to which general revenue recognition criteria can be applied separately. Numerous service offers are made up of two components, a product and a service. Once the separable components have been identified, the amount received or receivable from the customer is allocated based on each component's fair value. The revenue recognized is limited to the consideration received.

Revenue from sales and rental of equipment is recognized when the equipment is delivered and installed at customer premises.

2.15 Foreign currency translation
Transactions denominated in foreign currencies are recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

All foreign exchange differences are recognized within financial income / expense in the accounting period in which they arise.

2.16 Taxes
Current tax
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to calculate the amounts are those enacted at the balance sheet date.

Deferred tax
Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2. Accounting policies (continued)

2.16 Taxes (continued)
Deferred tax liabilities are recognized for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences, the carry-forward of unused tax credits and unused tax losses can be utilized, except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

2.17 Social security and pension schemes
The Group makes contributions to the Government's health and social security schemes at the statutory rates in force during the year, based on gross salary payments. The cost of these payments is charged to the income statement in the same period as the related salary cost.

2.18 Comparatives
Certain balances included in the comparative financial statements have been reclassified to conform to the current year presentation. Such reclassifications, in accordance with IAS 1.38, were carried out in order to enhance inter-period comparability of information and comprise the following changes:

a) Commitments (Note 23): The Group changed the methodology applied for the disclosure of commitments. The Group discloses only purchase contracts to which the Group is committed, but not includes open orders which are to be fulfilled within one to four weeks of the balance sheet date. The capital commitments disclosed in 2005 were decreased by SKK 722 million and operational commitments by SKK 136 million.

b) Fixed assets (Note 12, 13): Until 2005 the Group recorded additions as increase of assets under construction and subsequently transferred the expenditures to the relevant asset classes. Starting in 2006 the Group changed the presentation of additions to fixed assets. Additions to fixed assets are now directly reported as an increase in the relevant classes. The comparatives have been adjusted to reflect the changed presentation, but this did not have any impact on the cost or depreciation.

c) Revenue (Note 5): Starting in 2006, the Group amended its reporting on revenue from fixed network and broadband to reflect the management's perspective on the rapidly changing market environment. The 2005 "fixed network revenue" was decreased by SKK 1,224 million and "other revenue" by SKK 98 million. The "wholesale revenue" (2005: carrier services) was increased by SKK 373 million and the "IP / Internet revenue" (2005: online) was increased by SKK 949 million.

d) Prepaid expenses: In 2006 the Group presents prepaid expenses on the face of the balance sheet, the comparatives have been reclassified to conform to the 2006 presentation. In 2005 non-current prepaid expenses were reported in "deferred income and other non-current assets" (SKK 516 million) and current prepaid expenses were reported in "receivables and prepaid expenses" (SKK 323 million).

e) Staff costs (Note 6), material and equipment, other operating costs, net (Note 7): Starting in 2006 own work capitalized is offset directly against the relevant cost item. In 2005 own work capitalized was reported as part of "other operating cots, net". The comparatives were adjusted as follows: material and equipment decreased by SKK 373 million, staff costs by SKK 153 million while other costs, net increased by SKK 526 million.

f) Cash and cash equivalents (Note 18): The Group revised the reporting of cash and cash equivalents. To conform to the 2006 presentation the Group reclassified SKK 594 million from cash to short-term deposits in the 2005 comparatives.

2. Accounting policies (continued)

2.19 Significant accounting estimates
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date which bear a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of goodwill
The Group determines whether goodwill is impaired at least annually. This requires an estimation of the fair value less cost to sell of the cash-generating units to which the goodwill is allocated. Estimating the fair value less cost to sell requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to apply a suitable discount rate in order to calculate the present value of those cash flows.

Asset retirement obligation
The Group entered into lease contracts for land and premises on which the Group's communication network equipment is placed. The Group is committed by these contracts to dismantle the equipment and restore the land and premises to their original condition. Management judges and estimates the amount of the asset retirement obligation as follows:

a) estimation of an appropriate pre-tax credit adjusted interest rate, which is commensurate with the Group's credit standing;

b) estimates of the amounts which will be necessary to settle future obligations;

Such leases of land and property to the Group often represent the best economic use of the property and the owners may, upon expiration of the contracts, decide to renew the leases or when leases are terminated, not to enforce Group's restoration obligations as the modifications of land and premises are often deemed useful improvements.

Useful life of customer contracts
Customer contracts and related customer relationships are the most significant intangible asset identified in the purchase price allocation resulting from business combinations. The initial valuation was based on the planned cash flows arising from existing customer contracts as of the acquisition date adjusted by the estimated churn rate. The Group reviewed the estimated useful life of customer contracts and related relationships acquired in business combinations at the year end.

Allowance for doubtful accounts
The Group maintains an allowance for doubtful accounts to account for estimated losses resulting from the inability of customers to make the requisite payments. When evaluating the adequacy of the allowance for doubtful accounts, the management bases its estimates on historical write-off experience, customer creditworthiness and changes in customer payment terms.

Provisions and contingent liabilities
When considering the recognition of a provision, management judges the probability of future outflows and estimates the amount to settle the probable obligation. The judgment and estimates are continually reassessed taking into consideration experience with similar cases.

Estimation of fair value
The fair value of non-current assets held for sale, including those within the RK Business disposal group, is determined with reference to purchase offers received.

2.20 Adoption of IFRS during the year
The Group has adopted the following new and amended IFRS and IFRIC during the year.

IAS 19 Amendments – Employee Benefits
As of 1 January 2006, the Group adopted the amendments to IAS 19. The Group chose not to apply the new option offered to recognize actuarial gains and losses outside of the income statement.

IFRIC 4 Determining whether an Arrangement contains a Lease
The Group adopted IFRIC Interpretation 4 as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease. This change in accounting policy has not had a significant impact on the Group as at 31 December 2006 or 31 December 2005.

2. Accounting policies (continued)

2.20 Adoption of IFRS during the year (continued)

IFRIC 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

The Group adopted IFRIC Interpretation 6 as of 1 January 2006, which established the recognition date for liabilities arising from the EU Directive relating to the disposal of Waste Electrical and Electronic Equipment. According to the local waste legislation the Group has not met criteria that would oblige it to pay for the liquidation of historical household electronic equipment as during the measurement period it does not have decisive share in the market. The adoption of IFRIC 6 has not had a significant impact on the Group as at 31 December 2006 or 31 December 2005.

IAS 39 Amendments – Financial Instruments: Recognition and Measurement

The amendment related to the fair value option restricts the use of the option to designate any financial asset or liability to be held at fair value through the profit or loss. The amendment did not have any effect on the financial statements. Other amendments related to financial guarantee contracts and hedges of forecast intragroup transactions are not relevant to the Group.

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006:

- IAS 21 (Amendment) Net Investment in a Foreign Operation
- IFRS 4 (Amendment) Financial Guarantee Contracts
- IFRS 6 Exploration for and Evaluation of Mineral Resources
- IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRS 2 Group and Treasury Share Transactions

Adoption of these revised standards and interpretations will not have any effect on the financial statements of the Group.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on 1 January 2007 or later but which the Group has not adopted early:

- IFRS 7 Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2007).
- IFRIC 8 Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006).
- IFRIC 9 Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006).
- IFRIC 12 Service Concession Arrangements (effective for annual periods beginning on or after 1 May 2008).
- IFRS 8 Operating Segments (effective for annual periods beginning on or after 1 January 2009).
- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 1 March 2006).
- IFRIC 10 Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006).
- IFRIC 11, IFRS 2 Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007).

The Group believes that their application will not have any significant impact on the financial statements in the period of initial application.

3. Financial risk management

The Group is exposed to a variety of financial risks. The Group's risk management policy addresses the unpredictability of financial markets and seeks to minimize potential adverse effects on the performance of the Group.

The financial instruments with which the Group manages its liquidity comprise cash and short-term deposits and bank overdrafts.

In addition the Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group enters into derivative transactions. The purpose is to manage currency risks and interest rate risks arising from the Group's operations.

It is the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, credit risk and liquidity risk. The Treasury Department is responsible for financial risk management, following guidelines approved by the Board of Directors. The Treasury Department works in co-operation with the Group's operating units and with Deutsche Telekom AG Treasury. There are policies in place to cover specific areas, such as foreign currency risk, interest rate risk, credit risk, liquidity risk, the investment of excess funds and the use of derivative financial instruments.

3.1 Foreign currency risk
Through international connection of telephone lines the Group is exposed to transactional foreign currency risks arising from movements in foreign currencies against SKK. In addition the Group is exposed to risks arising from capital and operational expenditures denominated in foreign currencies. The Group's policy is to eliminate foreign currency exchange rate risk after the Group has entered into a firm commitment by the use of hedging contracts. Approximately 6% of the Group's revenue and 5% of costs are denominated in currencies other than SKK.

3.2 Interest rate risk
The Group's income and operating cash flows are substantially independent of changes in market interest rates. In the prior years the Group's interest rate risk arose from long-term borrowings. In 2006 the Group repaid all its long-term borrowings, this led to a significant decrease in the Group's exposure to interest rate risk.

3.3 Credit risk
Credit risk arises from the financial assets, which comprise cash and cash equivalents, derivative instruments and trade receivables. The Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The Group's credit risk policy defines products, maturities of products and limits for financial counterparties. The Group limits credit exposure to individual financial institutions on the basis of the credit ratings assigned to these institutions by reputable rating agencies and these limits are reviewed on a regular basis. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

3.4 Liquidity risk
The Group's liquidity risk mitigation principles define the level of cash, cash equivalents, marketable securities and the credit facilities available to the Group to allow it to meet its obligations on time and in full. The funding of liquidity needs is based on comparisons of income earned on cash and cash equivalents with the cost of financing available on credit facilities, with the objective of holding predetermined minimum amounts of cash, cash equivalents and credit facilities available on demand.

All amounts are in millions of Slovak crowns, unless otherwise stated

4. Business combinations

Acquisitions 2006
Zoznam
On 30 June 2006, the Group acquired the remaining 10% of the shares in Zoznam for a consideration of SKK 25 million. The book and the fair value of the additional interest acquired was SKK 4 million. The difference of SKK 21 million between the consideration and the book value of the interest acquired has been recognized as goodwill.

Zoznam Mobile
A part of the purchase price for Zoznam Mobile acquired in 2005 was dependent on the financial performance of the subsidiary in 2005. The Group's management estimated the final consideration to be SKK 25 million and the Group accounted for the business combination on a preliminary basis. This estimate was confirmed by reference to the audited results of Zoznam Mobile for the year ended 31 December 2005, and the outstanding part of the purchase price was paid in 2006.

Acquisitions 2005
Acquisition of Zoznam and Zoznam Mobile
On 31 August 2005, the Group acquired 90% of the shares in Zoznam and 100% of the shares in Zoznam Mobile. The fair value of the identifiable net assets of the subsidiaries at the date of acquisition was SKK 47 million and the corresponding carrying amount immediately before the acquisition was SKK 14 million. The Group acquired net assets of SKK 44 million and the remaining SKK 3 million was held by the minority interest.

The purchase consideration of SKK 163 million consisted of cash paid of SKK 133 million, contingent consideration for Zoznam Mobile of SKK 25 million and related acquisition costs of SKK 5 million.

The Group obtained goodwill of SKK 119 million. Included in goodwill are certain intangible assets that cannot be individually separated and reliably measured due to their nature and which, therefore, do not meet the recognition criteria of IAS 38.

5. Revenue

	2006	2005
Fixed network communication revenue	10,300	11,230
Wholesale revenue	1,565	1,356
IP / Internet revenue	1,956	1,536
Total fixed network and broadband revenue	13,821	14,122
Mobile communication revenue	15,484	13,994
Other revenue	342	160
	29,647	**28,276**

6.Staff costs

	2006	2005
Wages and salaries	2,820	2,864
Social security contributions	887	919
	3,707	**3,783**

	2006	2005
Number of employees at period end	5,882	6,788
of which T-Mobile	1,496	1,344

All amounts are in millions of Slovak crowns, unless otherwise stated

7. Other operating costs, net

	2006	2005
Marketing	1,081	890
Repairs and maintenance	752	757
Rentals and leases	712	660
Dealers commissions	531	449
Energy	426	378
IT services	385	332
Postal expenses	290	272
Bad debts expense	183	198
Consultancy	177	134
Business trips and trainings costs	159	134
Logistics and distribution	137	108
Frequency fees	136	104
Real estate management	128	-
Security	110	126
Regulatory and other legal claims	68	833
Other, net	392	628
	5,667	**6,003**

Other operating costs are presented net of the reimbursement of SKK 364 million (2005: SKK 399 million) received from Deutsche Telekom for expenses incurred by the Group during the rebranding campaigns for Slovak Telekom in 2006 and T-Mobile in 2005. The reimbursement mainly offsets increased marketing costs.

8. Financial income

	2006	2005
Interest on short term deposits	150	127
Amortisation of fair value adjustment on borrowings	-	98
	150	**225**

9. Financial expense

	2006	2005
Interest on borrowings	201	322
Net interest arising on derivatives	12	12
Net foreign exchange losses	80	5
Commitment fees and other financial costs	14	111
Net loss on derivatives	124	31
Other financial costs	15	17
	446	**498**

Interest expense includes early settlement fees of SKK 87 million (2005: SKK 57 million) for the early repayment of international institution loans (Note 20).

All amounts are in millions of Slovak crowns, unless otherwise stated

10. Taxation

The major components of income tax expense from continuing operations for the years ended 31 December are:

	2006	2005
Current tax expense	513	794
Deferred tax expense / (income)	20	(145)
Income tax expense reported in the income statement	**533**	**649**

Reconciliation between the reported income tax expense and the theoretical amount that would arise using the standard tax rate is as follows:

	2006	2005
Profit before income tax from continuing operations		
	2,427	2,484
Profit before income tax from discontinued operation	409	194
Profit before income tax	2,836	2,678
Income tax calculated at the statutory rate of 19% (2005: 19%)	539	509
Effect of income not taxable and expenses not tax deductible	84	176
Tax charge in respect of prior years	(11)	4
Income tax at the effective tax rate of 22% (2005: 26%)	612	689
Income tax from continuing operations	533	649
Income tax from discontinued operation	79	40
	612	**689**

Deferred tax assets (liabilities) and deferred tax expense (income) from continuing operations for the years ended 31 December are attributable to the following items:

	Balance sheet		Income statement	
	2006	2005	2006	2005
Accelerated tax depreciation	(3,992)	(3,898)	80	(82)
Unrealized foreign exchange gains	(3)	(68)	(65)	(2)
Allowance for bad debts	35	56	21	35
Termination benefits	7	52	45	20
Fair value of derivatives	28	82	56	15
Tax loss carry forward	-	59	59	59
Fair value adjustments	(1,842)	(2,012)	(177)	(157)
Other	57	58	1	(33)
	(5,710)	**(5,671)**	**20**	**(145)**

In 2005 the Group applied cash flow hedge accounting to its loans drawn from the European Investment Bank (Note 27). Together with the effective portion from the revaluation of the cash flow hedge, the Group charged the related deferred tax to equity. In 2006 the Group settled the loans and the assigned hedging instruments. The deferred tax accumulated in equity (SKK 2 million) was released to profit and loss.

All amounts are in millions of Slovak crowns, unless otherwise stated

11. Discontinued operation and other assets held for sale

		2006	2005
Assets of disposal group held for sale	11.1	1,829	-
Other assets held for sale	11.2	765	46
		2,594	**46**

11.1 Discontinued operation
On 30 January 2002 the Board of Directors decided to restructure and sell the Rádiokomunikácie Business (RK Business). The transaction was deferred until June 2006 when all legal constraints preventing the sale were resolved. Subsequently the Company classified the RK Business as a disposal group held for sale.

The RK Business is a cash generating unit of Slovak Telekom and consists of Rádiokomunikácie, o.z. (the Rádiokomunikácie branch), a branch of Slovak Telekom and the Company's subsidiaries RK Tower and TBDS. The RK Business owns, operates and manages wireless communication sites, broadcasting transmission and the radio relay network.

Following its classification as held for sale, no impairment charge has been recognized and the Company ceased to depreciate non-current assets from 1 July 2006.

The results of the RK Business for the years ended 31 December are:

	2006	2005
Revenue	870	928
Staff costs	(196)	(204)
Depreciation and amortization	(67)	(240)
Other operating expenses, net	(198)	(290)
Profit before tax from discontinued operation	409	194
Current tax	(58)	(50)
Deferred tax	(21)	10
Profit for the year from discontinued operation	**330**	**154**

Included in the profit before tax of the RK Business for the year ended 31 December 2006 is a one-off effect of SKK 99 million for a payment received from Slovenský Rozhlas for fully provided receivables. In addition, profit before tax 2006 is influenced by the cessation of depreciation of non-current assets after the classification of the disposal group as held for sale (SKK 89 million).

All amounts are in millions of Slovak crowns, unless otherwise stated

11. Discontinued operation and other assets held for sale (continued)

11.1 Discontinued operation (continued)

The major classes of assets and liabilities of the RK Business disposal group classified as held for sale as at 31 December 2006 are:

Assets classified as held for sale	
Fixed assets	1,591
Trade and other receivables and inventories	204
Cash and short-term deposits (Note 18)	34
	1,829
Liabilities directly associated with assets classified as held for sale	
Trade and other liabilities	125
Interest-bearing liability	7
	132
Net assets directly associated with disposal group	**1,697**

Interest-bearing liability represents a bank loan with an effective interest rate of 2.93%, repayable in full in 2007.

The operating cash flows of the disposal group were SKK 544 million (2005: SKK 434 million) and cash flows used in investing activities were SKK 150 million (2005: SKK 151 million). The cash flow used in financing financing activities was SKK 13 million (2005: SKK 17 million).

11.2 Other assets held for sale

	Land, buildings and related equipment
At 1 January 2006	46
Net transfer from property and equipment (Note 12)	1,199
Impairment	(379)
Assets sold	(101)
At 31 December 2006	**765**

Assets held for sale at 31 December 2006 comprise buildings and land which are planned to be sold in individual sales (SKK 51 million) as well as in clusters (SKK 714 million). It is management's intention to conclude the clustered sale transaction in the first half of 2007 and individual sales are regularly concluded within 3 to 6 months after classification as held for sale.

All amounts are in millions of Slovak crowns, unless otherwise stated

12. Property and equipment

	Land and buildings	Duct, cable and other outside plant	Telephone exchanges and related equipment	Radio and trans-mission equipment	Other	Assets under con-struction including advances	Total
Cost							
At 1 January 2006	7,082	27,381	39,815	11,168	7,235	1,788	94,469
Additions	267	839	1,480	1,019	737	840	5,182
Disposals	(30)	(321)	(1,313)	(413)	(525)	-	(2,602)
Transfers	12	136	479	(40)	166	(753)	-
Transfer to and from assets held for sale	(2,202)	(70)	(106)	(3,786)	(612)	(20)	(6,796)
At 31 December 2006	5,129	27,965	40,355	7,948	7,001	1,855	90,253
Depreciation							
At 1 January 2006	(1,568)	(9,848)	(27,084)	(7,322)	(3,684)	-	(49,506)
Depreciation charge	(341)	(846)	(4,078)	(975)	(709)	-	(6,949)
Impairment charge	-	(19)	(34)	-	(144)	(17)	(214)
Disposals	24	317	1,282	365	515	-	2,503
Transfers	(4)	-	(314)	253	65	-	-
Transfer to and from assets held for sale	627	23	88	2,987	408	-	4,133
At 31 December 2006	(1,262)	(10,373)	(30,140)	(4,692)	(3,549)	(17)	(50,033)
Net book value as of 31 December 2006	**3,867**	**17,592**	**10,215**	**3,256**	**3,452**	**1,838**	**40,220**

Depreciation of SKK 67 million relates to the RK Business.

All amounts are in millions of Slovak crowns, unless otherwise stated

12. Property and equipment (continued)

	Land and buildings	Duct, cable and other outside plant	Telephone exchanges and related equipment	Radio and trans-mission equipment	Other	Assets under construction including advances	Total
Cost							
At 1 January 2005	6,421	26,517	40,244	11,787	6,962	1,938	93,869
Additions	261	791	1,906	465	667	1,173	5,263
Disposals	(662)	(35)	(2,969)	(284)	(975)	(24)	(4,949)
Transfers	834	108	634	(800)	523	(1,299)	-
Transfer to and from assets held for sale	228	-	-	-	41	-	269
Acquisition of subsidiary	-	-	-	-	17	-	17
At 31 December 2005	7,082	27,381	39,815	11,168	7,235	1,788	94,469
Depreciation							
At 1 January 2005	(1,157)	(8,984)	(25,751)	(7,069)	(3,677)	(24)	(46,662)
Depreciation charge	(265)	(878)	(4,296)	(612)	(826)	-	(6,877)
Impairment charge	(26)	(9)	-	(62)	(52)	-	(149)
Disposals	200	25	2,961	278	959	24	4,447
Transfers	(98)	(2)	2	143	(45)	-	-
Transfer to and from assets held for sale	(222)	-	-	-	(33)	-	(255)
Acquisition of subsidiary	-	-	-	-	(10)	-	(10)
At 31 December 2005	(1,568)	(9,848)	(27,084)	(7,322)	(3,684)	-	(49,506)
Net book value as of 31 December 2005	**5,514**	**17,533**	**12,731**	**3,846**	**3,551**	**1,788**	**44,963**

Depreciation of SKK 240 million relates to the RK Business.

All amounts are in millions of Slovak crowns, unless otherwise stated

13. Intangible assets

	Customer contracts and related customer relationships	Licenses	Goodwill	Software	Other	Total
Cost						
At 1 January 2006	12,261	2,564	2,328	9,044	845	27,042
Additions	-	-	21	1,684	87	1,792
Disposals	-	-	-	(79)	-	(79)
Transfers	-	-	-	416	(416)	-
Transfer to and from assets held for sale	-	-	-	(44)	-	(44)
At 31 December 2006	12,261	2,564	2,349	11,021	516	28,711
Depreciation						
At 1 January 2006	(1,076)	(744)	-	(6,603)	(30)	(8,453)
Amortization charge	(1,076)	(146)	-	(1,762)	(37)	(3,021)
Impairment charge	-	-	-	(3)	-	(3)
Disposals	-	-	-	66	-	66
Transfer to and from assets held for sale	-	-	-	42	-	42
At 31 December 2006	(2,152)	(890)	-	(8,260)	(67)	(11,369)
Net book value as of 31 December 2006	**10,109**	**1,674**	**2,349**	**2,761**	**449**	**17,342**

Other intangible assets include assets under construction of SKK 344 million and brands of SKK 90 million.

All amounts are in millions of Slovak crowns, unless otherwise stated

13. Intangible assets (continued)

	Customer contracts and related customer relationships	Licenses	Goodwill	Software	Other	Total
Cost						
At 1 January 2005	12,250	2,564	2,209	8,228	517	25,768
Additions	-	-	-	252	1,309	1,561
Disposals	-	-	-	(449)	-	(449)
Transfers	-	-	-	1,011	(1,011)	-
Acquisition of subsidiary	11	-	119	2	30	162
At 31 December 2005	12,261	2,564	2,328	9,044	845	27,042
Depreciation						
At 1 January 2005	-	(690)	-	(5,362)	-	(6,052)
Amortization charge	(1,076)	(54)	-	(1,671)	(30)	(2,831)
Impairment charge	-	-	-	(1)	-	(1)
Disposals	-	-	-	433	-	433
Acquisition of subsidiary	-	-	-	(2)	-	(2)
At 31 December 2005	(1,076)	(744)	-	(6,603)	(30)	(8,453)
Net book value as of 31 December 2005	**11,185**	**1,820**	**2,328**	**2,441**	**815**	**18,589**

Other intangible assets include assets under construction of SKK 674 million and brands of SKK 120 million.

All amounts are in millions of Slovak crowns, unless otherwise stated

14. Impairment of goodwill

For impairment testing goodwill acquired in business combinations has been allocated to two individual cash-generating units, as follows:

	2006	2005
T-Mobile	2,209	2,209
Zoznam and Zoznam Mobile	140	119
	2,349	**2,328**

T-Mobile
The recoverable amount of the cash-generating unit (CGU) has been determined using cash flow projections for a ten-year period, which was applied to improve the accuracy of the calculation. A discount rate of 7.76% (2005: 7.97%) was used. The cash flows beyond the ten-year period are extrapolated using a 2.3% growth rate (2005: 2.5%). The recoverable amount of the CGU exceeds its carrying value.

Zoznam and Zoznam Mobile
As the business area in which the CGU operates is developing rapidly, its recoverable amount has been determined using cash flow projections covering a five-year period. The discount rate applied is 9.61% and cash flows beyond the five-year period are extrapolated using a 4% growth rate. The recoverable amount of the cash-generating unit exceeds its carrying value.

In 2005, the recoverable amount of the CGU was not determined since the purchase consideration was ascertained provisionally.

RK Business
In 2006 the cash–generating unit has been classified as a disposal group held for sale (Note 11) and has been measured in accordance with IFRS 5 "Assets held for sale and Discontinued operations". The expected selling price, less costs to sell, exceeds the carrying amount.

All amounts are in millions of Slovak crowns, unless otherwise stated

15. Principal subsidiary undertakings

At 31 December 2006 the Group had the following subsidiaries:

Name	Activity	Profit 2006	Profit 2005	Net assets 2006	Net assets 2005
T-Mobile Slovensko	Wireless phone and data services	2,427	2,626	10,581	8,154
RK Tower	Broadcasting	(8)	(27)	653	662
TBDS	No activity	-	-	1	1
Zoznam	Internet portal	14	11	29	15
Zoznam Mobile	Mobile content provider	13	8	22	8
Telekom Sec	General security services	-	-	-	-
Institute of NGN	NGN technology research and development	-	-	-	-

All subsidiaries are incorporated in the Slovak Republic and, except for the Institute of NGN and Zoznam in 2005, are wholly owned by the Company. The subsidiaries are not traded on the public market.

On 30 June 2006 Slovak Telekom acquired the remaining 10% of equity in Zoznam for SKK 25 million.

On 20 October 2006 the Institute of NGN (INGN) was founded as a partnership by Slovak Telekom and the University of Žilina. So far the Company has not provided any contribution to the partnership. INGN is controlled by Slovak Telekom.

On 25 October 2006 Slovak Telekom established the subsidiary Telekom Sec. The subsidiary was founded with an investment of SKK 200 thousand.

In 2006 the Company classified RK Tower and TBDS as a disposal group held for sale (Note 11).

16. Inventories

	2006	2005
Cables, wires and spare parts	106	102
Phones, accessories for mobile communication	90	205
Other inventory including goods for resale	75	91
	271	**398**

Inventories are stated net of an allowance of SKK 42 million (2005: SKK 105 million) for slow-moving and obsolete inventories, of which SKK 26 million (2005: SKK 80 million) relate to the fixed line network and SKK 16 million (2005: SKK 25 million) to the mobile network.

All amounts are in millions of Slovak crowns, unless otherwise stated

17. Trade and other receivables

	2006	2005
Trade receivables from third parties	3,427	3,397
Trade receivables from related parties (Note 24)	149	208
Other current assets and advances	149	124
	3,725	**3,729**

The Group has recognized an allowance of SKK 763 million (2005: SKK 906 million) for the impairment of trade receivables. Advances include SKK 43 million paid to a related party, DeTeImmobilien, s.r.o. (2005: nil).

18. Cash and cash equivalents

	2006	2005
Cash	2,632	2,053
Short-term deposits	1,801	1,732
	4,433	**3,785**

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise the following at 31 December 2006:

Cash	2,632
Short-term deposits	1,801
Cash and short-term deposits attributable to the disposal group held for sale (Note 11)	34
	4,467

19. Share capital and reserves

On 1 April 1999 Slovak Telekom became a joint-stock company, with 20,717,920 ordinary shares authorised, issued and fully paid at a par value of SKK 1,000 per share. Deutsche Telekom AG acquired 51% of Slovak Telekom through a privatisation agreement, effective 4 August 2000, by which the Company issued 5,309,580 new ordinary shares with a par value of SKK 1,000 per share. The shares were issued at a premium totalling SKK 11,632 million. All the newly issued shares were subscribed and fully paid by Deutsche Telekom AG. The privatisation transaction also involved the purchase by Deutsche Telekom AG of 7,964,445 existing ordinary shares from the Slovak Government.

As of 31 December 2006 Slovak Telekom had authorised and issued 26,027,500 ordinary shares (2005: 26,027,500) with a par value of SKK 1,000 per share. All the shares issued were fully subscribed.

The statutory reserve fund is set up in accordance with Slovak law and is not distributable. The reserve is created from retained earnings to cover possible future losses. In 2006, the Company transferred 10% of prior year statutory profits to the reserve fund.

In 2006 no dividends were declared (2005: SKK 4,300 million).

On the Group's acquisition of a controlling interest in T-Mobile at 31 December 2004, the assets and liabilities of T-Mobile were remeasured to their fair values. The excess of the fair value of the net assets acquired before 31 December 2004 over their value reported within investments in joint ventures of SKK 4,779 million was included in other reserves. As the assets acquired are subject to depreciation, in 2006 an amount of SKK 379 million (2005: SKK 339 million) was released.

All amounts are in millions of Slovak crowns, unless otherwise stated

20. Interest-bearing borrowings

	2006	2005
Current	-	632
Non-current	-	2,805
	-	**3,437**

In September 2006 the Group repaid early and in full loans drawn from the European Investment Bank (EIB) and the World Bank (WB), together with early repayment fees of SKK 87 million. The related hedging transactions (Note 27) have been redeemed together with the loans.

The loans drawn from EIB and WB were guaranteed by the Slovak Government and a Syndicated Bank Guarantee of EUR 93 million (SKK 3,828 million). The early repayment of the loans terminated the guarantees; no early cancellation fees were paid.

To secure its liquidity and financing position Deutsche Telekom has provided the Group with an unsecured and flexible loan facility of SKK 2,200 million, to date undrawn. The loan facility is available up to 28 December 2007 and bears interest at BRIBOR + 0.164%.
The carrying amounts, interest rates and maturity periods of borrowings as at 31 December were as follows:

	Interest rate p.a. %	Original maturity	2006	2005
European Investment Bank loan A	6.41	June 2008	-	142
European Investment Bank loan B	6.40	August 2009	-	145
European Investment Bank loan C	5.18	September 2011	-	2,358
World Bank loan USD	LIBOR + 0.12	August 2010	-	218
World Bank loan CPU	LIBOR + 0.76	August 2010	-	554
Tatra Banka loan	2.93	June 2007	-	20
			-	**3,437**

Interest for the WB loans was based on a WB specific interest rate (variable costs of qualified borrowings).

In 2006 the RK Business was classified as a disposal group held for sale (Note 11). The loan drawn from Tatra Banka represents a liability directly associated with the disposal group and was accordingly classified as held for sale (SKK 7 million).

All amounts are in millions of Slovak crowns, unless otherwise stated

21. Trade and other payables and deferred income

	2006	2005
Non-current		
Fair value of derivative instruments	-	334
Deferred income	429	419
Other	109	70
	538	**823**
Current		
Trade payables to third parties	3,557	3,512
Trade payables to related parties (Note 24)	231	231
Amounts due to employees	573	674
Deferred income	1,549	1,345
Fair value of derivative instruments	145	85
Dividends payable	-	800
Other	297	418
	6,352	**7,065**

22. Provisions

	Legal and regulatory claims	Termination benefits	Obligation for dismantlement and removal of asset	Loyalty programs	Other	Total
At 1 January 2006	920	272	161	84	76	1,513
Arising during the year	87	9	22	116	54	288
Reversals	(7)	(8)	(2)	(15)	(11)	(43)
Utilized	(13)	(237)	-	(54)	(70)	(374)
At 31 December 2006	987	36	181	131	49	1,384
Non-current	-	-	181	-	22	203
Current	987	36	-	131	27	1,181
	987	**36**	**181**	**131**	**49**	**1,384**

22. Provisions (continued)

Legal and regulatory claims
A provision of SKK 885 million was recognized in 2005 for a penalty imposed on the Company by the Anti-Monopoly Office of the Slovak Republic for not allowing competitors to access local lines (unbundling of local loops) and thus abusing its dominant market position. The Company appealed against the second stage decision at the Regional Court of Bratislava and the Company gained a suspension of the enforceability of the penalty payment until the final decision of the Court. The Company continues to explore all the legal options available.

In 2006 a provision of SKK 80 million was recognized in respect of a penalty imposed as a result of an enforceable second stage decision by the Anti-Monopoly Office of the Slovak Republic, in which the Company is accused of misusing its dominant position in the “Virtual Private Networks” market. Slovak Telekom appealed against the second stage decision and, on the 20 November 2006, gained a preliminary injunction against the enforceability of the decision. The Company continues to explore all the legal options available.

The provision includes further amounts in respect of other legal and regulatory claims brought against the Group. It is the opinion of the Group’s management that the outcome of these legal claims will not result in any significant loss beyond the amounts provided at 31 December 2006.

Loyalty programs
The provision for the loyalty program covers the cost of equipment, accessories and gifts provided in exchange for credits awarded to participants of the loyalty programs entitled “Max Club” and “T-Mobile Club”. The provision was recognized on the basis of the use of credits experienced by peer operators of similar loyalty programs.

Termination benefits
The restructuring of the Group’s operations resulted in a reduction in employee number by 1,013 in 2006. The Group expects that additional 89 jobs will be lost in 2007. An agreement has been reached with local trade union representatives based on a detailed formal plan that specifies the number of staff involved and their locations and functions. The amount of compensation to be paid for terminating employment was calculated by reference to the specific conditions included in the agreement with the trade unions.

Obligation for dismantlement and removal of assets
The Group is subject to obligations for the dismantlement, removal and restoration of assets associated with its cell site operating leases.

All amounts are in millions of Slovak crowns, unless otherwise stated

23. Commitments

The Group had the following capital commitments at 31 December:

	2006	2005
Capital expenditures contracted for but not completed due within 1 year	285	1,042
Capital expenditures contracted for but not completed due between one and five years	87	-
Capital expenditures contracted for but not completed due after five years	44	-
	416	**1,042**

The Group has commitments under operating leases and purchase contracts with terms ranging from one to ten years relating primarily to office, retail space, and motor vehicles (SKK 992 million), network support and maintenance (SKK 435 million), and to IT support (SKK 278 million).

The aggregate future minimum lease payments under non-cancellable operating leases and other purchase contracts as at 31 December are as follows:

	2006	2005
Operating commitments due within one year	764	830
Operating commitments due between one and five years	895	625
Operating commitments due after five years	267	498
	1,926	**1,953**

24. Related party transactions

The Group conducts business with its ultimate parent, Deutsche Telekom AG, and its subsidiaries, associates and joint ventures primarily for voice, data and other traffic which access their networks and also for management, consultancy and other services.

Deutsche Telekom
As at 31 December 2005 payables include dividends of SKK 408 million. In 2006 and 2005, the Group received reimbursements for costs incurred to the Group by the rebranding of Slovak Telekom (2006: 364 million) and T-Mobile (2005: 399 million) and this is shown within revenues. Interconnection fees charged direct to Deutsche Telekom in 2006 were billed to T-Systems Group in 2005.

Ministry of Transport, Post and Telecommunication
The Group provides telecommunication services to the Ministry of Transport, Post and Telecommunication (MTPT), which has significant influence over the Group. In 2005, Slovak Telekom sold its headquarters building to the MTPT for SKK 395 million and this is shown within revenues. At 31 December 2005 payables include dividends payable of SKK 272 million.

DeTeImmobilien
In September 2006 the facility and real estate management of Slovak Telekom was outsourced to DeTeImmobilien (DTI), a member of the Deutsche Telekom Group. DTI provided services costing SKK 128 million in 2006.

All amounts are in millions of Slovak crowns, unless otherwise stated

24. Related party transactions (continued)

During 2006 the key management personnel of the Company received compensation of SKK 154 million (2005: SKK 145 million).

	Receivables		Payables		Revenues		Expenses	
	2006	2005	2006	2005	2006	2005	2006	2005
Deutsche Telekom AG	31	26	64	504	534	399	220	144
T-Systems Group	5	107	17	57	58	429	103	161
T-Mobile Slovensko	-	-	-	-	-	-	-	-
T-Mobile Group	107	52	105	64	224	274	234	240
DeTeImmobilien Slovakia	43	-	44	-	-	-	128	-
MTPT	-	-	-	272	6	395	37	-
Other	6	23	1	14	40	39	14	20
	192	**208**	**231**	**911**	**862**	**1,536**	**736**	**565**

25. Contingencies

The Group is involved in legal and regulatory proceedings in the normal course of business. Management is confident that the Group will suffer no material loss as a result of such proceedings in excess of the provisions already recognized in the financial statements (Note 22).

26. Service concession arrangements

The Group is involved in the following service concession arrangements:

Slovak Telekom:
The Company operates electronic communications networks and provides electronic communications services on the basis of its telecommunications licence no. 7961/2000, amended by decision no. 750/12/2004, dated 20 September 2004. The numbers and frequencies allocated in such licences are deemed an individual authorisation pursuant to Sections 31 and 32 of the Act on Electronic Communications (AEC) until their validity expires.

On 4 April 2006, Slovak Telekom received a second stage decision issued by the Chairman of the Telecommunications Office of the Slovak Republic (TO) in which the Company was designated to provide universal service and the TO imposed the obligation to provide a universal service pursuant to Sec. 50 Ss. 1 and 2 letters a) to d) of the AEC and in a quality pursuant to Sec. 51 of the AEC and Measure of TO no. O-5/2004. The terms of performance of universal service obligations are as follows:

a) permanent access to emergency call numbers – by 5 April 2006

b) provision of at least one comprehensive directory of subscribers in electronic form, provision and operation of at least one comprehensive telephone directory enquiry service on telephone numbers – by 15 April 2006

c) connection to the public telephone network and access to public telephone services; providing users with services in order to allow them control of their expenditures – by 1 July 2006

d) ensuring reasonable availability of public payphones; ensuring access to publicly available telephone services for disabled users; provision of at least one comprehensive directory of subscribers in print form – by 1 January 2007

In compliance with preliminary provision Sec. 76 Ss. 10 of the AEC, in May 2004 the Company submitted a motion to cancel its obligation to provide public telegraph service and public telex service. In November 2005 the Company received the second stage decision of the TO which confirmed that the Company was obliged to provide public telex services until 31 March 2006 and public telegraph services until 31 December 2006. Subsequently, the Company ceased the provision of public telex services on 1 April 2006 and of telegraph services on 31 December 2006.

T-Mobile:
In November 1990, T-Mobile was awarded a 20-year exclusive licence to operate an analogue NMT 450 MHz network in the Slovak Republic. T-Mobile also received a licence to construct and operate a public switched packet data network. T-Mobile launched NMT 450 mobile telecommunications services commercially in September 1991 and began to provide managed data network services in November 1991. In August 1996, T-Mobile received one of two licences granted by the MTPT to build and operate a GSM 900 MHz network and launched this service in February 1997. In July 1999, T-Mobile's original GSM 900 MHz licence was amended and T-Mobile received one of two licences granted by the MTPT to build and operate a GSM 1800 MHz network. In July 2000, the Telecommunications Office consolidated T-Mobile's licences into one general licence. This is the licence under which T-Mobile currently operates and it is valid up to 2011. Prior to the expiration of this licence, T-Mobile has the option to renew the licence for up to an additional 10 years and may be required to pay certain fees for the renewal of the licence.

This licence imposes various obligations with which T-Mobile must comply. These obligations include, but are not limited to: reaching certain build-out milestones on an ongoing basis; attaining a certain minimum geographic coverage and levels of service quality and the payment of certain fees.

With effect from 16 July 2002, T-Mobile was awarded the licence for the implementation and operation of a public mobile telecommunications network based on the UMTS standard. The UMTS licence also provides for the control of related radio frequencies by T-Mobile. On 30 September 2003, T-Mobile was granted full control of the frequencies under the terms of the UMTS licence. T-Mobile launched the UMTS service commercially in January 2006. The UMTS licence is valid until 2022 when T-Mobile has the option to request its prolongation.

All amounts are in millions of Slovak crowns, unless otherwise stated

27. Financial instruments

Fair values
Below is a comparison by category of the carrying amounts and fair values of all the Group's financial instruments, including those classified as a disposal group held for sale:

	Carrying amount		Fair value	
	2006	2005	2006	2005
Financial assets				
Cash and cash equivalents	4,467	3,785	4,467	3,785
Trade receivables	3,765	3,605	3,765	3,605
Financial liabilities				
Trade payables	4,448	4,417	4,448	4,417
Interest-bearing borrowings:				
Floating rate borrowings	-	(772)	-	(772)
Fixed rate borrowings	(7)	(2,665)	(7)	(2,905)
Derivatives	(145)	(419)	(145)	(419)

The fair value of derivatives and the borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates.

Derivatives as at 31 December 2006 are forward exchange contracts (SKK 145 million). At the 31 December 2005 the derivatives include cross currency swaps (SKK 404 million) and forward exchange contracts (SKK 15 million).

Interest rate risk
In 2006 the only financial instruments of the Group exposed to changes in interest rates are cash and cash equivalents (SKK 4,667 million) and the fixed rate borrowing (SKK 7 million), both due within one year. The cash and cash equivalents are at a floating rate.

The borrowing is directly associated with the assets of the disposal group RK Business and is classified as held for sale (Note 11).

In 2005 the following financial instruments of the Group were exposed to interest rate risk:

Fixed rate

	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
Fixed rateborrowings	(499)	(493)	(458)	(429)	(393)	(393)	(2,665)
Derivatives	(15)	(15)	(14)	(14)	(12)	(12)	(82)

All amounts are in millions of Slovak crowns, unless otherwise stated

27. Financial instruments (continued)

Floating rate

	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
Cash and cash equivalents	3,785	-	-	-	-	-	3,785
Floating rate borrowings	(133)	(143)	(154)	(165)	(177)	-	(772)
Derivatives	(55)	(60)	(64)	(69)	(74)	-	(322)

Interest on financial instruments classified as floating rate is recalculated at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. Other financial instruments of the Group that are not included in the above tables are non-interest-bearing and are therefore not subject to interest rate risk.

Credit risk
There are no significant concentrations of credit risk within the Group.

Hedging activities
In 2005 the Group designated cross-currency swap contracts related to loans drawn from the EIB as hedges of future cash flows. The cross-currency swap contracts were negotiated to match the terms of the loans. The hedge of future cash flows was assessed to be highly effective and an unrealized gain of SKK 6 million, net of related deferred tax of SKK 2 million, was charged to equity. From June to September 2006 the Group repaid the loans drawn from the EIB and at the same time settled the related cross currency swaps. The amount previously accumulated in equity was recycled to profit and loss.

In addition the Group entered into cross-currency swaps to hedge its exposure to changes in foreign exchange rates related to loans drawn from the WB (denominated in US Dollar and Currency Pool Unit - CPU). Hedge accounting was not applied to these contracts. The cross-currency swaps were settled at the same time with the repayment of the loans drawn from the WB in September 2006.

Independent Auditor's Report

ERNST & YOUNG

Independent Auditor's Report

To the Shareholders of Slovak Telekom, a.s.:

We have audited the accompanying financial statements of Slovak Telekom, a.s. and its subsidiaries ('the Group'), which comprise the consolidated balance sheet as at 31 December 2006 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2006 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

14 March 2007
Bratislava, Slovak Republic

Ernst & Young Slovakia, spol. s r.o.
SKAU Licence No. 257

Ing. Jana Švarcová
SKAU Licence No. 932

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT

Slovak Telekom, a. s.

Auditor's Report and IFRS Financial Statements

31 December 2006

Contents

All amounts are in millions of Slovak crowns, unless otherwise stated

Income Statement

for the year ended 31 December

	Notes	2006	2005
Revenue	5	14,741	14,966
Staff costs	6	(2,730)	(2,927)
Material and equipment		(623)	(570)
Depreciation and amortization	12,13,14	(6,438)	(6,085)
Interconnection fees		(1,941)	(1,812)
Other operating costs, net	7	(2,704)	(3,433)
Operating profit		305	139
Financial income	8	216	983
Financial expense	9	(225)	(252)
Profit before tax		296	870
Taxation	11	(105)	(168)
Profit for the year from continuing operations		191	702
Discontinued operation	12	318	172
Profit for the year		**509**	**874**

The financial statements on pages 111 to 142 were authorized for issue on behalf of the Board of Directors on 14 March 2007 by:

Ing. Miroslav Majoroš
Chairman of the Board of Directors
and President

Szabolcs Gárborjáni-Szabó
Member of the Board of Directors
and Senior Executive Vice-President

All amounts are in millions of Slovak crowns, unless otherwise stated

Balance Sheet

as at 31 December

	Notes	2006	2005
ASSETS			
Non-current assets			
Property and equipment	13	32,540	36,895
Software	14	1,402	1,533
Investments in subsidiaries	16	11,605	12,281
Prepaid expenses		490	390
		46,037	51,099
Current assets			
Inventories	17	178	192
Trade and other receivables	18	1,779	3,751
Prepaid expenses		207	248
Inter-company loan	19	-	700
Income tax		209	-
Cash and cash equivalents	20	3,726	3,107
		6,099	7,998
Assets of disposal group and other assets held for sale	12	2,561	46
		8,660	8,044
TOTAL ASSETS		**54,697**	**59,143**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		26,028	26,028
Share premium		11,632	11,632
Statutory reserve fund		1,385	1,222
Retained earnings and other reserves		7,287	6,947
Total equity	21	46,332	45,829
Non-current liabilities			
Interest-bearing borrowings	22	-	2,798
Provisions	24	20	31
Deferred tax	11	3,306	3,130
Other payables and deferred income	23	391	691
		3,717	6,650
Current liabilities			
Interest-bearing borrowings	22	-	619
Trade and other payables and deferred income	23	3,494	4,685
Provisions	24	1,038	1,216
Income tax		-	144
		4,532	6,664
Liabilities directly associated with assets classified as held for sale	12	116	-
		4,648	6,664
Total liabilities		8,365	13,314
TOTAL EQUITY AND LIABILITIES		**54,697**	**59,143**

All amounts are in millions of Slovak crowns, unless otherwise stated

Statement of Changes in Shareholders' Equity

for the year ended 31 December

	Notes	Share capital	Share premium	Statutory reserve fund	Retained earnings and other reserves	Total equity
Year ended 31 December 2005						
At 1 January 2005	21	26,028	11,632	1,183	10,406	49,249
Dividends		-	-	-	(4,300)	(4,300)
Hedging swaps		-	-	-	6	6
Profit for the year		-	-	-	874	874
Allocation to funds		-	-	39	(39)	-
At 31 December 2005	**21**	**26,028**	**11,632**	**1,222**	**6,947**	**45,829**
Year ended 31 December 2006						
At 1 January 2006	21	26,028	11,632	1,222	6,947	45,829
Hedging swaps		-	-	-	(6)	(6)
Profit for the year		-	-	-	509	509
Allocation to funds		-	-	163	(163)	-
At 31 December 2006	**21**	**26,028**	**11,632**	**1,385**	**7,287**	**46,332**

All amounts are in millions of Slovak crowns, unless otherwise stated

Cash Flow Statement

for the year ended 31 December

	Notes	2006	2005
Profit for the year from continuing operations		191	702
Profit for the year from discontinued operation	12	318	172
Adjustments for:			
Depreciation and amortization		6,489	6,272
Interest expense, net		68	98
Dividend income		-	(837)
Income tax expense	11	182	212
Gain on disposals of property and equipment		(234)	(198)
Foreign exchange gain and other non cash items		(360)	(122)
Movements in provisions		(189)	517
Changes in working capital			
Change in trade and other receivables		421	307
Change in inventories		61	23
Change in trade and other payables		(4)	(10)
Cash flows from operations		6,943	7,136
Income taxes (paid) / received		(358)	273
Net cash flows from operating activities		6,585	7,409
Investing activities			
Purchase of software and property and equipment		(3,903)	(4,781)
Proceeds from sale of property and equipment		328	899
Acquisition of investments in subsidiaries		(50)	(138)
Dividends treated as capital repayment by subsidiary		804	-
Dividends received		837	-
Disbursement of inter-company loan		-	(700)
Repayment of inter-company loan		700	-
Interest received		144	97
Net cash used in investing activities		(1,140)	(4,623)
Financing activities			
Repayment of borrowings		(3,353)	(612)
Payments on derivatives		(406)	(94)
Dividends paid	10	(800)	(3,500)
Interest paid		(267)	(208)
Net cash used in financing activities		(4,826)	(4,414)
Net increase / (decrease) in cash and cash equivalents		619	(1,628)
Cash and cash equivalents at 1 January	20	3,107	4,735
Cash and cash equivalents at 31 December	**20**	**3,726**	**3,107**

Notes to the Financial Statements

Index to the notes to the financial statements

1. General information

Slovak Telekom, a. s. (the Company or Slovak Telekom) was incorporated as a joint-stock company in the Slovak Republic on 1 April 1999. On 4 August 2000, Deutsche Telekom AG obtained control of the Company through the acquisition of 51% of the shares of Slovak Telekom. The transaction involved the purchase of existing shares from the Slovak Government and the issue of new shares. The Slovak Government retained 49% of the shares of the Company through the Ministry of Transport, Posts and Telecommunications of the Slovak Republic (34%) and the National Property Fund (15%).

In 2005 the Board of Directors approved the change of the Company's business name, taking effect as of 8 March 2006, from Slovak Telecom, a. s. to Slovak Telekom, a. s.

The Company is the principal supplier of fixed-line telecommunication services in the Slovak Republic and owns and operates the majority of the telecommunications facilities therein. The Company provides local, national, and international telephony services and a wide range of other telecommunications services including leased lines, data networks and broadband as well as narrowband internet services. It also provides residential and business customers with products ranging from standard telephones to computer communication networks. The Company is also owner and operator of radio and television transmission equipment.

Registered office:

Námestie slobody 6
817 62 Bratislava
Slovak Republic

2. Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation
The financial statements are the separate financial statements of the Company and meet the requirements of IFRS in respect of the preparation of a parent's separate financial statements.

The financial statements have been prepared on a historical cost basis, except where disclosed otherwise. The Company's functional currency is the Slovak crown (SKK), the financial statements are presented in SKK and all values are rounded to the nearest million.

The financial statements were prepared using the going concern assumption that the Company will continue its operations for the foreseeable future.

Statement of compliance
These financial statements are the separate financial statements of Slovak Telekom and were prepared in accordance with International Financial Reporting Standards adopted by the EU (IFRS).

For all periods up to and including the year ended 31 December 2005 the Company prepared its separate financial statements in accordance with Slovak GAAP. Effective 1 January 2006, the Act on Accounting No. 431/2002 Coll. requires the Company to prepare its separate financial statements in accordance with IFRS (Regulation No. 1606/2002 as later amended). Accordingly, these financial statements for the year ended 31 December 2006 are the first separate financial statements the Company has prepared in accordance with IFRS. The effects of the transition to IFRS on the Company's financial position and performance are given in Note 4.

The Company has prepared and presented its consolidated financial statements in accordance with IFRS for a number of years. Consolidated financial statements have also been issued for the year ended 31 December 2006 and consistent measurement and recognition criteria have been applied in both sets of financial statements and they were approved for issue by the Board of Directors on 14 March 2007.

2. Accounting policies (continued)

2.2 Property and equipment

Cost

Property and equipment, except for land, is carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Land acquired before 1991 is stated at the values assigned to it by the Government and land purchased thereafter is carried at acquisition cost. Borrowing costs are not capitalized.

Cost includes all costs directly attributable to bringing the asset into working condition for its intended use. In the case of network, this comprises all expenditure, including internal costs directly attributable to network construction up to the network termination point within customer premises, and includes contractors' fees, materials and direct labor. Cost also includes the replacement cost of property and equipment when those costs are incurred if the recognition criteria are met.

Maintenance, repairs and minor renewals are charged to the income statement as incurred.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized. Net disposal proceeds consist of both cash consideration and the fair value of non-cash consideration received.

Depreciation

Depreciation is calculated on a straight-line basis from the time the assets are available for use, so as to write down their cost to their estimated residual values over their useful lives. The depreciation charge is identified separately for each significant part of an item of property and equipment.

The useful lives assigned to the various categories of property and equipment are:

Freehold buildings	8 to 50 years
Duct, cable and other outside plant	30 years
Telephone exchanges and related equipment	4 to 13 years
Radio and television equipment	8 to 30 years
Other fixed assets	2 to 30 years

No depreciation is provided on freehold land and capital work in progress.

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted in accordance with IAS 8 where appropriate, at each financial year-end.

Property and equipment are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount of an asset is higher than its recoverable amount, it is written down to its estimated recoverable amount.

When property and equipment meet the criteria to be classified as held for sale, they are stated at whichever is the lower of their carrying amount and fair value less costs to sell and reclassified from non-current to current assets. The Company measures an item of property and equipment that ceases to be classified as held for sale at the lower of:

a) its carrying amount before the asset was classified as held for sale, adjusted for any depreciation and amortization that would have been recognized had the asset not been classified as held for sale, and

b) its recoverable amount at the date of the subsequent decision not to sell.

2.3 Software

Software acquired separately is measured on initial recognition at cost. Following initial recognition, software is carried at cost less any accumulated amortization and any accumulated impairment losses. Software has a finite useful life and is amortized using the straight-line method and assessed for impairment whenever there is an indication that the software may be impaired.

2. Accounting policies (continued)

2.3 Software (continued)
The useful lives and the amortization methods for software are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Costs that are directly associated with the development of identifiable and unique software products controlled by the Company and that will generate economic benefits exceeding cost beyond one year are recognized as software. Cost comprises all directly attributable costs necessary to create, produce and prepare the software to be capable of operating in the manner intended by management, including enhancements of applications in use.

The useful lives assigned to software are 2 to 5 years.

Gains or losses arising from derecognition of software are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are included in the income statement when the asset is derecognized.

2.4 Investments in subsidiaries
Investments in subsidiaries are recognized at cost. Distributions received in excess of the pre-acquisition profits of subsidiaries are regarded as a recovery of the initial investment and are recognized as a reduction of the cost of the investment. The cost of the investment in a subsidiary is based on the cost attributed to the acquisition of the investment, representing fair value of the consideration given and directly attributable transaction costs.

2.5 Impairment of assets
The Company assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the assets. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units). The Company determines the recoverable amount of a cash generating unit based on its fair value less costs to sell. The fair value less costs to sell is determined by discounted cash flow calculations. These discounted cash flow calculations are based on financial budgets approved by management, usually covering a ten-year period, and used for internal purposes. Cash flows beyond the detailed planning periods are extrapolated using appropriate growth rates. Key assumptions on which management based the determination of the fair value less costs to sell include average revenue per user, customer acquisition and retention costs, churn rates, capital expenditures, market share, growth rates and discount rates. Cash flow calculations are supported by external sources of information.

In addition to the general impairment testing of cash-generating units, the Company also tests individual assets if their purpose changes from being held and used to being sold or otherwise disposed of. In such circumstances the recoverable amount is determined by reference to market value less cost to sell.

2.6 Inventories
Inventories are stated at the lower of cost and net realizable value. Cost is calculated on a weighted average basis. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. An allowance is created against slow-moving and obsolete inventories.

2.7 Trade and other receivables
Trade and other receivables are recognized and measured in accordance with IAS 39. Trade and other receivables, which generally have 14-60 days' terms, are recognized initially at fair value and subsequently measured at amortized cost less any allowance for impairment. The allowance recognized adequately reflects the expected credit risk. Trade receivables are grouped together on the basis of similar credit risk characteristics and tested for impairment. The loss recognized is measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows. The estimated cash flows are based on past experience of the collectibility of overdue receivables.

Amounts payable to and receivable from the same international operators are shown net in the balance sheet when a right to set-off exists.

2. Accounting policies (continued)

2.8 Derivative financial instruments and hedging activities
The Company uses derivative financial instruments to hedge the risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are recognized and measured at fair value through profit or loss, except where they meet criteria for hedge accounting.

The derivative financial instruments used by the Company are not traded in an active market and fair value is determined by using a variety of methods and assumptions that are based on market conditions existing at each balance sheet date. The fair values of derivative and other financial instruments are calculated as the present value of the estimated future cash flows at the current market interest rate for similar financial instruments.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are included in the income statement in the year in which they arise.

For the purpose of hedge accounting, hedges are classified as follows:

a) fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability;

b) cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecast transaction.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company applies hedge accounting, the risk management objective and the strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Company will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting of changes in fair value or cash flows and are assessed on an ongoing basis to determine that they have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges
Fair value hedges are hedges of the Company's exposure to changes in the fair value of a recognized asset or liability, or an identified portion of such an asset or liability that is attributable to a particular risk and could affect profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is re-measured at fair value and gains and losses from both are taken to profit or loss.

The Company discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, if the hedge no longer meets the criteria for hedge accounting or if the Company revokes the designation.

Cash flow hedges
Cash flow hedges are a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognized directly in equity, while the ineffective portion is recognized in profit or loss. Amounts taken to equity are recycled to the income statement when the hedged transaction affects profit or loss, such as when hedged financial income or a financial expense is recognized or when a forecast sale or purchase occurs.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognized in equity are recycled to profit and loss.

2. Accounting policies (continued)

2.9 Cash and cash equivalents
Cash and short-term deposits in the balance sheet comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of bank overdrafts. In the balance sheet, bank overdrafts are included in borrowings in current liabilities.

2.10 Trade payables
Trade payables are initially measured at fair value plus transaction costs. After initial recognition, trade payables are measured at amortized cost using the effective interest method.

2.11 Leased assets
The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases of assets in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment made to the lessor by way of penalty is recognized as an expense in the period in which the termination takes place.

2.12 Interest-bearing loans and borrowings
All loans and borrowings are initially recognized and measured at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

2.13 Provisions
Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognized for future operating losses.

If the effect of the time-value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks and timing specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

Termination benefits
Employee termination benefits are recognized in the period when a detailed plan listing the employees to be discharged is defined and authorized by management and the trade unions.

Customer loyalty program
The Company operates a customer loyalty program. As part of the program, the Company grants credits to the participants which can be redeemed in future periods for free or discounted goods or services. A provision is recognized as expense when credits are granted to customers. The provision is reduced by the portion representing estimated awarded credits that are expected to be forfeited by the customers. The provision is utilized when the customers receive benefits from the program.

2. Accounting policies (continued)

2.14 Revenue recognition
Revenue is recognized upon delivery of services and products and customer acceptance thereof and to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured. Revenue for rendering services and customer equipment sales is shown net of value added tax and discounts.

The Company recognizes revenue as follows:

Access fees and charges for incoming and outgoing telephone calls and other traffic are recognized in revenue in the period in which the service is rendered.

Activation fees are deferred over the expected customer retention period. This period is estimated on the basis of the anticipated term of the customer relationship under the arrangement which generated the activation fee. Costs incurred in providing the connection, to the extent of the activation fees, are recognized as an asset and amortized over the same period.

Interconnect revenue derived from calls and other traffic that originates in other operators' networks is recognized in revenue at the time when the call is received in the Company's network. The Company pays a proportion of the revenue it collects from its customers to other operators for calls and other traffic that originate in the Company's network but use other operators' networks.

Content revenue is recognized gross or net of the amount due to the content provider when the latter is responsible for the service content and the Company acts as an agent without assuming the risks and rewards of the ownership of the services.

Revenue from multiple revenue arrangements is considered as comprising the identifiable and separable components to which general revenue recognition criteria can be applied separately. Numerous service offers are made up of two components, a product and a service. Once the separable components have been identified, the amount received or receivable from the customer is allocated based on each component's fair value. The revenue recognized is limited to the consideration received.

Revenue from sales and rental of equipment is recognized when the equipment is delivered and installed at customer premises.

2.15 Foreign currency translation
Transactions denominated in foreign currencies are recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

All foreign exchange differences are recognized within financial income / expense in the accounting period in which they arise.

2.16 Taxes
Current tax
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to calculate the amounts are those enacted at the balance sheet date.

Deferred tax
Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences, the carry-forward of unused tax credits and unused tax losses can be utilized, except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

2. Accounting policies (continued)

2.16 Taxes (continued)
The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

2.17 Social security and pension schemes
The Company makes contributions to the Government's health and social security schemes at the statutory rates in force during the year, based on gross salary payments. The cost of these payments is charged to the income statement in the same period as the related salary cost.

2.18 Significant accounting estimates
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date which bear a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Allowance for doubtful accounts
The Company maintains an allowance for doubtful accounts to account for estimated losses resulting from the inability of customers to make the requisite payments. When evaluating the adequacy of the allowance for doubtful accounts, the management bases its estimates on historical write-off experience, customer creditworthiness and changes in customer payment terms.

Provisions and contingent liabilities
As set out in Note 24 and 27, the Company is a participant in several lawsuits and regulatory proceedings. When considering the recognition of a provision, management judges the probability of future outflows and estimates the amount to settle the probable obligation. The judgment and estimates are continually reassessed taking into consideration experience with similar cases.

Estimation of fair value
The fair value of non-current assets held for sale, including those within the RK Business disposal group, is determined with reference to purchase offers received.

2.19 Adoption of IFRS during the year
The Company has adopted the following new and amended IFRS and IFRIC during the year:

IAS 19 Amendments – Employee Benefits
As of 1 January 2006, the Company adopted the amendments to IAS 19. The Company chose not to apply the new option offered to recognize actuarial gains and losses outside of the income statement.

IFRIC 4 Determining whether an Arrangement contains a Lease
The Company adopted IFRIC Interpretation 4 as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease. This change in accounting policy has not had a significant impact on the Company as at 31 December 2006 or 31 December 2005.

IFRIC 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
The Company adopted IFRIC Interpretation 6 as of 1 January 2006, which established the recognition date for liabilities arising from the EU Directive relating to the disposal of Waste Electrical and Electronic Equipment. According to local waste legislation, the Company has not met criteria that would oblige it to pay for the liquidation of historical household electronic equipment. The adoption of IFRIC 6 has not had a significant impact on the Company as at 31 December 2006 or 31 December 2005.

IAS 39 Amendments – Financial Instruments: Recognition and Measurement
The amendment related to the fair value option restricts the use of the option to designate any financial asset or liability to be held at fair value through profit or loss. The amendment did not have any effect on the financial statements. Other amendments related to financial guarantee contracts and hedges of forecast intragroup transactions are not relevant to the Company.

2. Accounting policies (continued)

2.19 Adoption of IFRS during the year (continued)

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006:

- IAS 21 (Amendment) Net Investment in a Foreign Operation
- IFRS 4 (Amendment) Financial Guarantee Contracts
- IFRS 6 Exploration for and Evaluation of Mineral Resources
- IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRS 2 Group and Treasury Share Transactions

Adoption of these revised standards and interpretations will not have any effect on the Company's financial statements.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on 1 January 2007 or later but which the Company has not adopted early:

- IFRS 7 Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2007).
- IFRIC 8 Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006).
- IFRIC 9 Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006).
- IFRIC 12 Service Concession Arrangements (effective for annual periods beginning on or after 1 May 2008).
- IFRS 8 Operating Segments (effective for annual periods beginning on or after 1 January 2009).
- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 1 March 2006).
- IFRIC 10 Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006).
- IFRIC 11 IFRS 2 Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007).

The Company believes that their application will not have any significant impact on the financial statements in the period of initial application.

3. Financial risk management

The Company is exposed to a variety of financial risks. The Company's risk management policy addresses the unpredictability of financial markets and seeks to minimize potential adverse effects on the performance of the Company.

The Company's financial instruments, other than derivatives and investment in subsidiaries, comprise bank overdrafts and cash and short-term deposits. The main purpose of these instruments is to manage the liquidity of the Company.

The Company holds financial assets which represent its investment in subsidiaries. These financial assets are considered to be long-term and represent a significant part of the Company's business activities. With its subsidiaries T-Mobile and with the Institute of NGN the Company has agreed shareholder loan facilities.

The Company has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Company also enters into derivative transactions. The purpose is to manage the currency risks and interest rate risks arising from the Company's operations.

It is the Company's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Company's financial instruments are liquidity risk, foreign currency risk, interest rate risk and credit risk. The Treasury Department is responsible for financial risk management, following guidelines approved by the Board of Directors. The Treasury Department works in co-operation with the Company's operating units and with Deutsche Telekom AG Treasury. In addition, the Treasury Department manages the liquidity and financing needs of the Company's subsidiaries. There are policies in place to cover specific areas, such as foreign currency risk, interest rate risk, credit risk, liquidity risk, the investment of excess funds and the use of derivative financial instruments.

3.1 Foreign currency risk
Through the international interconnection of phone lines the Company is exposed to transactional foreign currency risks arising from movements in foreign currencies against SKK. In addition, the Company is exposed to risks arising from capital and operational expenditures denominated in foreign currencies. The Company's policy is to eliminate foreign currency exchange rate risk after the Company has entered into a firm commitment by the use of hedging contracts. Approximately 4% of the Company's revenue is denominated in currencies other than SKK. 10% of costs are denominated in currencies other than SKK.

It is the Company's policy to negotiate the terms of hedging derivatives to match the terms of the hedged item to maximize the hedge effectiveness.

3.2 Interest rate risk
The Company's income and operating cash flows are substantially independent of changes in market interest rates. In the prior years, the Company's interest rate risk has arisen from long-term borrowing. In 2006 the Company repaid all its long-term borrowings, this led to a significant decrease in the Company's exposure to interest rate risk.

3.3 Credit risk
The Company's credit risk policy defines products, maturities of products and limits for financial counterparties. The Company limits credit exposure to individual financial institutions on the basis of credit ratings assigned to these institutions by reputable rating agencies and these limits are reviewed on a regular basis. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

With regard to credit risk arising from other financial assets, which comprise cash and cash equivalents, trade receivables and derivative instruments, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

3.4 Liquidity risk
The Company's liquidity risk mitigation principles define the level of cash, cash equivalents, marketable securities and the credit facilities available to the Company to allow it to meet its obligations on time and in full. The funding of liquidity needs is based on comparisons of income earned on cash and cash equivalents with the cost of financing available on credit facilities, with the objective of holding predetermined minimum amounts of cash, cash equivalents and credit facilities available on demand.

All amounts are in millions of Slovak crowns, unless otherwise stated

4. Transition to IFRS

The transition from Slovak GAAP to IFRS affected the Company's financial position and financial performance as set out below:

Shareholders' equity	Notes	2005	2004
Shareholders' equity under Slovak GAAP		45,118	47,751
Cost of investment in T-Mobile	4.1		
■ Hedging result capitalized		1,116	1,116
■ Dividends received from pre-acquisition profits		(804)	-
Valuation of property and equipment	4.2		
■ Difference in useful lives		622	737
■ Fair value of land		(41)	(151)
■ Different depreciation start dates		(78)	(78)
Deferred tax	4.3	(104)	(126)
Shareholders' equity under IFRS		**45,829**	**49,249**

Profit for the year	Notes	2005
Profit for the year under Slovak GAAP		1,626
Cost of investment in T-Mobile	4.1	
■ Dividends received from pre-acquisition profits		(804)
Valuation of property and equipment	4.2	
■ Amortization of IFRS adjustment for useful lives		(116)
■ Release of IFRS adjustment for land		110
Deferred tax	4.3	24
Recognition of fair value of derivatives	4.4	
■ Fair value of trading derivatives		149
■ Fair value of derivatives designated as hedging instruments		(89)
■ Deferred tax impact of fair value adjustments		(12)
Distribution to social fund from prior year profit		(14)
Profit for the year under IFRS		**874**

The transition from Slovak GAAP to IFRS had no material impact on the cash flow statement.

4. Transition to IFRS (continued)

4.1 Cost of investment in T–Mobile
On 26 September 2004, when owning 51% of the shares of T-Mobile Slovensko, a. s. (T-Mobile), the Company entered into an agreement for the purchase of the remaining 49% of the shares. As the purchase price was denominated in US Dollars, the Company entered into a hedging transaction to hedge the risk of foreign currency exchange rate fluctuations. The designated hedging instruments were a forward foreign currency contract and foreign currencies held in cash. The transaction qualified for hedge accounting under IAS 39 and, on completion of the transaction, the hedging result of SKK 1,116 million was included in the cost of the investment. Under Slovak GAAP, the hedging result was expensed.

In 2005 T-Mobile proposed a distribution of dividends from profits accumulated to 31 December 2004 (SKK 1,641 million). IAS 27 allows financial income to be recognized only to the extent that the investor receives distributions from the investees' accumulated profits arising after the date of acquisition. Since 49% of the accumulated profit of T-Mobile at 31 December 2004 was purchased in the business combination mentioned above and consequently represents pre-acquisition profits, SKK 804 million was recognized as a reduction in the cost of the investment. Under Slovak GAAP, the full dividend was recognized as financial income.

4.2 Valuation of property and equipment
In 1994 the Company prepared its first consolidated financial statements in accordance with IFRS. At that time the accounting depreciation under Slovak GAAP was equal to the tax depreciation. As a result, the depreciation charged exceeded that which would have been charged by reference to the actual useful lives of property and equipment. To adjust the understatement of property and equipment in the first IFRS consolidated financial statements, an adjustment of SKK 2,908 million was recorded. The majority of the adjustment has been released by reference to the depreciation charged or to the disposal of the related property and equipment. The remaining adjustment increases the carrying amount of two groups of property and equipment, buildings (SKK 366 million) and network equipment (SKK 257 million), and will be amortized by 2020 and 2009 respectively.

Additionally, the valuation of land transferred to the Company on its incorporation did not represent fair value. Therefore, an adjustment of SKK 160 million was recorded in the first IFRS consolidated financial statements, decreasing the value of land transferred to the Company. The adjustment has been partially released by reference to the subsequent disposal of land.

IAS 16 requires that the depreciation of an asset begins when it is available for use. In 2000 the Company acquired assets relating to data network and started to depreciate these assets under IFRS earlier than under Slovak GAAP because of delays in receiving the protocols needed before depreciation can be charged under Slovak GAAP. The difference in depreciation start-dates resulted in an accumulated difference in equity of SKK 78 million.

4.3 Deferred tax
The majority of the deferred tax adjustment relates to differences between the carrying values of assets and liabilities measured under Slovak GAAP and IFRS. In addition, IFRS deferred tax was not recognized for the temporary difference associated with the Company's investment in T-Mobile. The Company is able to control the timing of the reversal and it is probable that the temporary difference will not be reversed in the foreseeable future.

4.4 Recognition of fair value of derivatives
Under IFRS any gain or loss arising from changes in the fair value of derivatives that do not qualify for hedge accounting is recognized in the income statement in the year in which it arises. Under Slovak GAAP changes in the fair value of derivatives, for both hedging and non-publicly traded derivatives, are recognized in equity.

Similarly, under Slovak GAAP deferred tax on the differences between the carrying value and tax value of derivatives is accounted for through equity. Under IFRS, the majority of the changes in the fair value of derivatives are recorded through profit and loss and the related deferred tax, charged to equity under Slovak GAAP, is presented as deferred tax expense.

This adjustment has an income statement effect only and does not result in any equity difference between IFRS and Slovak GAAP.

All amounts are in millions of Slovak crowns, unless otherwise stated

5. Revenue

	2006	2005
Voice services	7,780	8,695
Content services	595	610
Terminal equipment	313	363
Data services	1,947	1,915
Fixed network communication revenue	10,635	11,583
Wholesale revenue	1,900	1,713
IP / Internet revenue	1,863	1,509
Total fixed network and broadband revenue	14,398	14,805
Other revenue	343	161
	14,741	**14,966**

6. Staff costs

	2006	2005
Wages and salaries	2,078	2,219
Social security contributions	652	708
	2,730	**2,927**

	2006	2005
Number of employees at period end	**4,333**	**5,402**

7. Other operating costs, net

	2006	2005
Repairs and maintenance	485	520
Energy	294	278
Marketing	300	409
Rentals and leases	115	80
Commissions	105	85
Postal expenses	202	195
Consultancy	116	98
Bad debts expense	87	106
Regulatory and other legal claims	68	833
Real estate management	128	-
IT services	189	159
Security	86	101
Other, net	529	569
	2,704	**3,433**

All amounts are in millions of Slovak crowns, unless otherwise stated

7. Other operating costs, net (continued)

Other operating costs are presented net of the reimbursement of SKK 364 million received from Deutsche Telekom for additional expenses that the Company incurred during the rebranding campaign when the Company's name was changed to Slovak Telekom.

The reimbursement mainly offsets increased expenses in marketing (SKK 221 million), other costs (SKK 53 million) and repairs and maintenance (SKK 52 million).

Other costs include travel expenses of SKK 55 million (2005: SKK 35 million), training costs of SKK 43 million (2005: SKK 50 million) and cleaning expenses of SKK 34 million (2005: SKK 51 million).

8. Financial income

	2006	2005
Interest on short-term deposits	144	102
Net foreign exchange gains	65	44
Dividend income	-	837
Net gain on financial instruments	7	-
	216	**983**

In 2005 the Company received a dividend of SKK 1,641 million from T-Mobile, of which SKK 837 million was recognized in income (the remaining part represents pre-acquisition profits and decreased the Company's investment in T-Mobile - Note 16).

9. Financial expense

	2006	2005
Interest on borrowings	200	188
Net interest arising on derivatives	12	12
Commitment fees and other financial charges	10	12
Net loss on financial instruments	-	34
Other financial costs	3	6
	225	**252**

In 2006, interest expense includes early settlement fees of SKK 87 million for the early repayment of interest-bearing borrowings.

10. Dividends

In 2005 a dividend of SKK 4,300 million was declared, of which SKK 3,500 million was paid out in 2005. In January 2006 the remaining SKK 800 million was paid out. Approval of the 2006 profit distribution will take place at the Annual General Meeting scheduled for 24 April 2007.

All amounts are in millions of Slovak crowns, unless otherwise stated

11. Taxation

The major components of income tax expense for the years ended 31 December are:

	2006	2005
Current tax (income) / expense	(54)	210
Deferred tax expense / (income)	159	(42)
Income tax expense reported in the income statement	**105**	**168**

A reconciliation between the reported income tax expense and the theoretical amount that would arise using the standard tax rate is as follows:

	2006	2005
Profit before income tax from continuing operations	296	870
Profit before income tax from discontinued operation	395	216
Profit before income tax	691	1,086
Income tax calculated at the statutory rate of 19% (2005: 19%)	131	206
Effect of income not taxable and expenses not tax deductible	58	8
Tax charge in respect of prior years	(7)	(2)
Income tax at the effective tax rate of 26% (2005: 19%)	182	212
Income tax attributable to continuing operations	105	168
Income tax attributable to discontinued operation	77	44
	182	**212**

Deferred tax assets (liabilities) and deferred tax expense (income) for the years ended 31 December are attributable to the following items:

	Balance sheet		Income statement	
	2006	2005	2006	2005
Accelerated tax depreciation	(3,343)	(3,245)	80	(81)
Unrealized foreign exchange gains	(3)	(67)	(64)	(2)
Allowance for bad debts	19	26	6	24
Termination benefits	7	52	45	20
Fair value of derivatives	-	82	84	11
Other	14	22	8	(14)
	(3,306)	**(3,130)**	**159**	**(42)**

In 2005 the Company applied cash flow hedge accounting to its loans drawn from international institutions (Note 29). Together with the effective portion from the revaluation of the cash flow hedges, the Company charged the related deferred tax to equity. In 2006 the Company settled the loans and the assigned hedging instruments. The deferred tax accumulated in equity of SKK 2 million was released to profit and loss.

12. Discontinued operation and other assets held for sale

All amounts are in millions of Slovak crowns, unless otherwise stated

	Notes	2006	2005
Assets of disposal group held for sale	12.1	1,796	-
Other assets held for sale	12.2	765	46
		2,561	**46**

12.1. Discontinued operation

On 30 January 2002 the Board of Directors decided to restructure and sell the Rádiokomunikácie Business (RK Business). The transaction was deferred until June 2006 when all legal constraints preventing the sale were resolved. Subsequently the Company classified the RK Business as a disposal group held for sale.

The RK Business is a cash generating unit of Slovak Telekom and consists of Rádiokomunikácie, o.z. (the Rádiokomunikácie branch), a branch of Slovak Telekom and the Company's subsidiaries RK Tower and TBDS. The RK Business owns, operates and manages wireless communication sites, broadcasting transmission and the radio relay network.

Following its classification as held for sale, no impairment charge has been recognized and the Company ceased to depreciate non-current assets from 1 July 2006.

The results of the Rádiokomunikácie branch for the years ended 31 December are:

	2006	2005
Revenue	927	973
Staff costs	(195)	(203)
Depreciation and amortization	(51)	(187)
Other operating expenses, net	(286)	(367)
Profit before tax from discontinued operation	395	216
Current tax	(58)	(50)
Deferred tax	(19)	6
Income tax expense (Note 11)	(77)	(44)
Profit for the year from discontinued operation	**318**	**172**

Included in the profit before tax of the Rádiokomunikácie branch for the year ended 31 December 2006 is a one-off effect amounting to SKK 99 million representing a payment received from Slovenský rozhlas for fully provided receivables. In addition, profit before tax is influenced by the cessation of depreciation of non-current assets after the classification of the disposal group as held for sale (SKK 71 million).

All amounts are in millions of Slovak crowns, unless otherwise stated

12. Discontinued operation and other assets held for sale (continued)

12.1 Discontinued operation (continued)

The major classes of assets and liabilities of the Rádiokomunikácie branch and the Company's investments in RK Tower and TBDS classified as held for sale at 31 December 2006 are:

Assets classified as held for sale	
Fixed assets	898
Investments in subsidiaries (Note 16)	701
Trade and other receivables and inventories	197
	1,796
Liabilities directly associated with assets classified as held for sale	
Trade and other liabilities	116
	116
Net assets directly associated with disposal group	**1,680**

The operating cash flows of the disposal group were SKK 520 million (2005: SKK 402 million) and cash flows used in investing activities were SKK 124 million (2005: SKK 120 million). The Rádiokomunikácie branch does not hold any cash at banks or short-term deposits.

12.2 Other assets held for sale

	Land, buildings and related equipment
At 1 January 2006	46
Net transfer from property and equipment (Note 13)	1,199
Impairment	(379)
Assets sold	(101)
At 31 December 2006	**765**

Assets held for sale at 31 December 2006 comprise buildings and land which are planned to be sold in individual sales (SKK 51 million) as well as in clusters (SKK 714 million). It is management's intention to conclude the clustered sale transaction in the first half of 2007 and individual sales are regularly concluded within 3 to 6 months after classification as held for sale.

All amounts are in millions of Slovak crowns, unless otherwise stated

13. Property and equipment

	Land and buildings	Duct, cable and other outside plant	Telephone exchanges and related equipment	Radio and transmission equipment	Other	Capital work in progress including advances	Total
Cost							
At 1 January 2006	5,513	27,382	36,432	3,295	4,328	698	77,648
Additions	121	839	1,059	-	352	572	2,943
Disposals	(30)	(321)	(1,086)	(13)	(396)	-	(1,846)
Transfers	6	135	452	(164)	29	(458)	-
Transfers to and from assets held for sale	(1,588)	(70)	(106)	(3,118)	(598)	(16)	(5,496)
At 31 December 2006	4,022	27,965	36,751	-	3,715	796	73,249
Depreciation							
At 1 January 2006	(1,171)	(9,848)	(25,248)	(2,685)	(1,801)	-	(40,753)
Depreciation charge	(217)	(846)	(3,644)	(35)	(323)	-	(5,065)
Impairment charge	(1)	(19)	(34)	-	(142)	(2)	(198)
Disposals	24	317	1,056	11	393		1,801
Transfers	(4)	-	(203)	142	65	-	-
Transfers to and from assets held for sale	425	23	88	2,567	403	-	3,506
At 31 December 2006	(944)	(10,373)	(27,985)	-	(1,405)	(2)	(40,709)
Net book value at 31 December 2006	**3,078**	**17,592**	**8,766**	**-**	**2,310**	**794**	**32,540**

Depreciation of SKK 51 million relates to the Rádiokomunikácie branch.

All amounts are in millions of Slovak crowns, unless otherwise stated

13. Property and equipment (continued)

	Land and buildings	Duct, cable and other outside plant	Telephone exchanges and related equipment	Radio and transmission equipment	Other	Assets under construction including advances	Total
Cost							
At 1 January 2005	5,822	26,516	37,139	3,452	4,759	1,270	78,958
Additions	120	791	1,656	-	159	498	3,224
Disposals	(661)	(33)	(2,967)	(283)	(835)	(24)	(4,803)
Transfers	4	108	604	126	204	(1,046)	-
Transfers to and from assets held for sale	228	-	-	-	41	-	269
At 31 December 2005	5,513	27,382	36,432	3,295	4,328	698	77,648
Depreciation							
At 1 January 2005	(965)	(8,983)	(24,274)	(2,819)	(2,314)	(24)	(39,379)
Depreciation charge	(157)	(878)	(3,936)	(143)	(242)	-	(5,356)
Impairment charge	(26)	(9)	-	-	(36)	-	(71)
Disposals	199	24	2,960	277	824	24	4,308
Transfers	-	(2)	2	-	-	-	-
Transfers to and from assets held for sale	(222)	-	-	-	(33)	-	(255)
At 31 December 2005	(1,171)	(9,848)	(25,248)	(2,685)	(1,801)	-	(40,753)
Net book value at 31 December 2005	**4,342**	**17,534**	**11,184**	**610**	**2,527**	**698**	**36,895**

Depreciation of SKK 187 million relates to the Rádiokomunikácie branch.

All amounts are in millions of Slovak crowns, unless otherwise stated

14. Software

	Software	Software under construction	Total
Cost			
At 1 January 2006	4,003	41	4,044
Additions	690	42	732
Disposals	(70)	-	(70)
Transfers	40	(40)	-
Transfers to and from assets held for sale	(43)	-	(43)
At 31 December 2006	4,620	43	4,663
Depreciation			
At 1 January 2006	(2,511)	-	(2,511)
Amortization charge	(844)	-	(844)
Impairment charge	(3)	-	(3)
Disposals	56	-	56
Transfers to and from assets held for sale	41	-	41
At 31 December 2006	(3,261)	-	(3,261)
Net book value at 31 December 2006	**1,359**	**43**	**1,402**

	Software	Software under construction	Total
Cost			
At 1 January 2005	3,541	201	3,742
Additions	700	13	713
Disposals	(411)	-	(411)
Transfers	173	(173)	-
At 31 December 2005	4,003	41	4,044
Depreciation			
At 1 January 2005	(2,071)	-	(2,071)
Amortization charge	(844)	-	(844)
Impairment charge	(1)	-	(1)
Disposals	405	-	405
At 31 December 2005	(2,511)	-	(2,511)
Net book value at 31 December 2005	**1,492**	**41**	**1,533**

All amounts are in millions of Slovak crowns, unless otherwise stated

15. Impairment of fixed assets

The assets of the Company, excluding investments in subsidiaries and the Rádiokomunikácie branch, constitute one cash-generating unit (CGU).

In 2006 no impairment test for the CGU was required. However, the Company recognized specific impairment of individual non-current assets of SKK 201 million (Note 13,14).

16. Investments in subsidiaries

As at 31 December 2006 the Company held the following investments in subsidiaries:

Name	Activity	Cost of investment 2006	Investments classified as held for sale 2006	Profit 2006	Net assets 2006
T-Mobile Slovensko, a. s.	Wireless phone and data services	11,416	-	2,427	10,581
RK Tower, s.r.o.	Broadcasting	-	700	(8)	653
TBDS, a. s.	No activity	-	1	-	1
Zoznam, s.r.o.	Internet portal	116	-	14	29
Zoznam Mobile , s.r.o.	Mobile content provider	73	-	13	22
Telekom Sec, s.r.o.	Security services	-	-	-	-
Institute of NGN	NGN technology research and development	-	-	-	-
		11,605	**701**		

All subsidiaries of the Company are incorporated in the Slovak Republic and, except for the Institute of NGN, wholly owned by the Company. The subsidiaries are not traded on the public market.

On 30 June 2006 Slovak Telekom acquired the outstanding 10% of equity in Zoznam for SKK 25 million.

On 20 October 2006 the Institute of NGN (INGN) was founded as a partnership by Slovak Telekom and the University of Žilina. So far the Company has not provided any contribution to the partnership. INGN is controlled by Slovak Telekom.

On 25 October 2006 Slovak Telekom established the subsidiary Telekom Sec. The subsidiary was founded with an investment of SKK 200 thousand.

In 2006 the Company classified RK Tower and TBDS as a disposal group held for sale (Note 12).

As at 31 December 2005 the Company held the following investments in subsidiaries:

Name	Activity	Slovak Telekom shareholding	Cost of investment 2005	Profit 2005	Net assets 2005
T-Mobile Slovensko, a. s.	Wireless phone and data services	100%	11,416	2,626	8,154
RK Tower, s.r.o.	Broadcasting	100%	700	(27)	662
TBDS, a. s.	No activity	100%	1	-	1
Zoznam, s.r.o.	Internet portal	90%	91	11	15
Zoznam Mobile , s.r.o.	Mobile content provider	100%	73	8	8
			12,281		

All amounts are in millions of Slovak crowns, unless otherwise stated

16. Investments in subsidiaries (continued)

In 2005 the Company received a dividend of SKK 1,641 million from T-Mobile. The pre-acquisition profit of SKK 804 million was recorded as a decrease in the Company's investment in T-Mobile.

On 31 August 2005 the Company acquired 90% of the shares in Zoznam for SKK 91 million and 100% of Zoznam Mobile for SKK 73 million.

17. Inventories

	2006	2005
Cables, wires and spare parts	104	99
Other inventory including goods for resale	74	93
	178	**192**

Inventories are shown net of an allowance of SKK 26 million (2005: SKK 80 million) for slow-moving and obsolete inventories.

18. Trade and other receivables

	2006	2005
Trade receivables from third parties	1,603	1,859
Trade receivables from related parties	111	202
Dividend receivable	-	1,641
Other current assets and advances	65	49
	1,779	**3,751**

Trade receivables are net of an allowance of SKK 343 million (2005: SKK 565 million).

In 2006 the Company sold uncollectible receivables with a notional value of SKK 274 million (2005: SKK 158 million) to a company specializing in the collection of overdue receivables for SKK 29 million (2005: SKK 23 million) and the related allowance was released.

Advances include SKK 43 million paid to a related party, DeTeImmobilien, s.r.o. (2005: nil).

19. Inter-company loans

The Company entered into a flexible loan agreement with T-Mobile (2005) and the Institute of NGN (2006). Under the terms of the agreement, T-Mobile is allowed to draw up to SKK 1,600 million and to the Institute of NGN: SKK 20 million. The interest rate underlying the loan facilities is variable BRIBOR + 0.214%. T-Mobile had drawn down SKK 700 million at 31 December 2005 and repaid the loan in full by 31 December 2006. The loan facility with the Institute of NGN is so far undrawn.

20. Cash and cash equivalents

	2006	2005
Cash	2,404	1,969
Short-term deposits	1,322	1,138
	3,726	**3,107**

All amounts are in millions of Slovak crowns, unless otherwise stated

21. Share capital and reserves

On 1 April 1999 Slovak Telekom became a joint-stock company, with 20,717,920 ordinary shares authorised, issued and fully paid at a par value of SKK 1,000 per share. Deutsche Telekom AG acquired 51% of Slovak Telekom through a privatisation agreement, effective 4 August 2000, by which the Company issued 5,309,580 new ordinary shares with a par value of SKK 1,000 per share. The shares were issued at a premium totalling SKK 11,632 million. All the newly issued shares were subscribed and fully paid by Deutsche Telekom AG. The privatisation transaction also involved the purchase by Deutsche Telekom AG of 7,964,445 existing ordinary shares from the Slovak Government.

As of 31 December 2006 Slovak Telekom had authorised and issued 26,027,500 ordinary shares (2005: 26,027,500) with a par value of SKK 1,000 per share. All the shares issued were fully subscribed.

The statutory reserve fund is set up in accordance with Slovak law and is not distributable. The reserve is created from retained earnings to cover possible future losses. In 2006, the Company transferred 10% of prior year statutory profits to the reserve fund.

In 2006 no dividends were declared (2005: SKK 4,300 million).

22. Interest-bearing borrowings

Loans from international institutions	2006	2005
Current	-	619
Non-current	-	2,798
	-	**3,417**

In September 2006 the Company repaid early and in full loans drawn from the European Investment Bank (EIB) and the World Bank (WB), together with early repayment fees of SKK 87 million. The related hedging transactions (Note 29) have been redeemed together with the loans.

The loans drawn from EIB and WB were guaranteed by the Slovak Government and a Syndicated Bank Guarantee of EUR 93 million (SKK 3,828 million). The early repayment of the loans terminated the guarantees; no early cancellation fees were paid.

To secure its liquidity and financing position, Deutsche Telekom has provided the Company with an unsecured and flexible loan facility of SKK 2,200 million, to date undrawn. The loan facility is available up to 28 December 2007 and bears interest at BRIBOR + 0.164%.

The carrying amounts, interest rates and maturity periods of borrowings as at 31 December were as follows:

	Interest rate p.a. %	Original maturity	2006	2005
European Investment Bank loan A	6.41	June 2008	-	142
European Investment Bank loan B	6.40	August 2009	-	145
European Investment Bank loan C	5.18	September 2011	-	2,358
World Bank loan USD	LIBOR + 0.12	August 2010	-	218
World Bank loan CPU	LIBOR + 0.76	August 2010	-	554
			-	**3,417**

Interest for the WB loans was based on a WB specific interest rate (variable costs of qualified borrowings).

All amounts are in millions of Slovak crowns, unless otherwise stated

23. Trade and other payables and deferred income

	2006	2005
Non-current		
Fair value of derivatives	-	334
Deferred income	391	357
	391	**691**
Current		
Trade payables to third parties	1,947	2,039
Trade payables to related parties	200	265
Amounts due to employees	385	491
Fair value of derivatives	-	70
Deferred income	840	773
Dividends payable	-	800
Other	122	247
	3,494	**4,685**

24. Provisions

	Legal and regulatory claims	Loyalty program	Termination benefits	Other	Total
At 1 January 2006	917	2	272	56	1,247
Arising during the year	85	14	9	1	109
Reversals	(7)	-	(8)	(12)	(27)
Utilized	(10)	-	(236)	(25)	(271)
At 31 December 2006	985	16	37	20	1,058
Non-current	-	-	-	20	20
Current	985	16	37	-	1,038
	985	**16**	**37**	**20**	**1,058**

Legal and regulatory claims
A provision of SKK 885 million was recognized in 2005 for a penalty imposed on the Company by the Anti-Monopoly Office of the Slovak Republic for not allowing competitors to access local lines (unbundling of local loops) and thus abusing its dominant market position. The Company appealed against the second stage decision at the Regional Court of Bratislava and the Company gained a suspension of the enforceability of the penalty payment until the final decision of the Court. The Company continues to explore all the legal options available.

In 2006 a provision of SKK 80 million was recognized in respect of a penalty imposed as a result of an enforceable second stage decision by the Anti-Monopoly Office of the Slovak Republic, in which the Company is accused of misusing its dominant position in the “Virtual Private Networks” market. Slovak Telekom appealed against the second stage decision and, on the 20 November 2006, gained a preliminary injunction against the enforceability of the decision. The Company continues to explore all legal options available.

The provision includes further amounts in respect of other legal and regulatory claims brought against the Company. It is the opinion of the Company’s management that the outcome of these legal claims will not result in any significant loss beyond the amounts provided at 31 December 2006.

All amounts are in millions of Slovak crowns, unless otherwise stated

24. Provisions (continued)

Loyalty program
The provision for the loyalty program covers the cost of equipment, accessories and gifts provided in exchange for credits awarded to participants of the Company's loyalty program entitled "Max Club". The provision was recognized on the basis of the use of credits experienced by peer operators of similar loyalty programs.

Termination benefits
The restructuring of the Company's operations resulted in a reduction in employee number by 1,013 in 2006. The Company expects that 89 jobs will be lost in 2007. An agreement has been reached with local trade union representatives based on a detailed formal plan that specifies the number of staff involved and their locations and functions. The amount of compensation to be paid for terminating employment was calculated by reference to the specific conditions included in the agreement with the trade unions.

25. Commitments

The Company had the following capital commitments at 31 December:

	2006	2005
Capital expenditures contracted for but not completed	**-**	**220**

The Company has commitments under operating leases and other purchase contracts with terms ranging from one to ten years relating primarily to network support and maintenance (SKK 435 million) and to IT support (SKK 278 million).

The aggregate future minimum lease payments under non-cancelable operating leases and other purchase contracts as at 31 December are as follows:

	2006	2005
Operating commitments due within one year	330	270
Operating commitments due between one and five years	311	339
Operating commitments due after five years	106	247
	747	**856**

26. Related party transactions

	Receivables		Payables		Revenues		Expenses	
	2006	2005	2006	2005	2006	2005	2006	2005
Deutsche Telekom AG	31	-	64	505	534	-	218	134
T-Systems Group	5	102	17	57	63	430	101	160
T-Mobile Slovensko	65	2,430	54	107	776	797	558	589
DeTe Immobilien Slovakia	43	-	44	-	8	-	128	-
MTPT	-	-	-	272	6	395	37	-
Other	10	11	21	4	66	71	137	143
	154	**2,543**	**200**	**945**	**1,453**	**1,693**	**1,179**	**1,026**

The Company conducts business with its subsidiaries (T-Mobile, RK Tower, Zoznam and Zoznam Mobile) as well as with its ultimate parent, Deutsche Telekom AG, and its subsidiaries, associates and joint ventures primarily for voice, data and other traffic which access their networks and also for management, consultancy and other services.

26. Related party transactions (continued)

T-Mobile Slovensko
Receivables from T-Mobile at 31 December 2005 include a loan of SKK 700 million and dividends receivable of SKK 1,641 million. In 2006 the loan was repaid in full and no dividends were declared.

Deutsche Telekom
As at 31 December 2005 payables include dividends of SKK 408 million. In 2006, the Company received a reimbursement of SKK 364 million for costs incurred by its rebranding and this is shown within revenues. Interconnection fees billed direct to Deutsche Telekom in 2006 were billed to T-Systems Group in 2005.

Ministry of Transport, Post and Telecommunication
Slovak Telekom provides telecommunication services to the Ministry of Transport, Post and Telecommunication (MTPT), which has significant influence over the Company. In 2005, the Company sold its headquarters building to the MTPT for SKK 395 million and this is shown within revenues. At 31 December 2005 payables include dividends payable of SKK 272 million.

DeTeImmobilien
In September 2006 the facility and real estate management of the Company was outsourced to DeTeImmobilien (DTI), a member of the Deutsche Telekom Group. DTI provided services costing SKK 128 million in 2006.

During 2006 the key management personnel of the Company received compensation of SKK 86 million (2005: SKK 77 million).

27. Contingencies

The Company is involved in legal and regulatory proceedings in the normal course of business. Management is confident that the Company will suffer no material loss as a result of such proceedings in excess of the provisions already recognized in the financial statements (Note 24).

28. Service concession arrangements

The Company operates electronic communications networks and provides electronic communications services on the basis of its telecommunications licence no. 7961/2000, amended by decision no. 750/12/2004, dated 20 September 2004. The numbers and frequencies allocated in such licences are deemed an individual authorisation pursuant to Sections 31 and 32 of the Act on Electronic Communications (AEC) until their validity expires.

On 4 April 2006, ST received a second stage decision issued by the Chairman of the Telecommunications Office of the Slovak Republic (TO) in which the Company was designated to provide universal service and the TO imposed the obligation to provide universal service pursuant to Sec. 50 Ss. 1 and 2 of the AEC and in a quality pursuant to Sec. 51 of the AEC and Measure of TO no. O-5/2004. The terms of performance of universal service obligations are as follows:

a) permanent access to emergency call numbers – by 5 April 2006,

b) provision of at least one comprehensive directory of subscribers in electronic form, provision and operation of at least one comprehensive telephone directory enquiry service on telephone numbers – by 15 April 2006,

c) connection to the public telephone network and access to public telephone services; providing users with services in order to allow them control of their expenditures – by 1 July 2006,

d) ensuring reasonable availability of public payphones, ensuring access to publicly available telephone services for disabled users, provision of at least one comprehensive directory of subscribers in print form – by 1 January 2007.

In compliance with provision Sec. 76 Ss. 10 of the AEC, in May 2004 the Company submitted a motion to cancel its obligation to provide public telegraph service and public telex service. In November 2005 the Company received the second stage decision of the TO which confirmed that the Company was obliged to provide public telex services until 31 March 2006 and public telegraph services until 31 December 2006. Subsequently, the Company ceased the provision of public telex services on 1 April 2006 and of telegraph services on 31 December 2006.

All amounts are in millions of Slovak crowns, unless otherwise stated

29. Financial instruments

Fair values
Below is a comparison by category of the carrying amounts and fair values of all the Company's financial instruments, including those classified as a disposal group held for sale:

	Carrying amount		Fair value	
	2006	2005	2006	2005
Financial assets				
Cash and cash equivalents	3,726	3,107	3,726	3,107
Inter-company loan	-	700	-	700
Trade receivables	1,899	2,061	1,899	2,061
Financial liabilities				
Trade payables	2,608	2,795	2,608	2,795
Interest-bearing borrowings:				
Floating rate borrowings	-	(772)	-	(772)
Fixed rate borrowings	-	(2,645)	-	(2,885)
Derivatives	-	(404)	-	(404)

The fair value of derivatives, loans and borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates.

Interest rate risk
In 2006 the only financial instruments of the Company exposed to changes in interest rates are cash and cash equivalents (SKK 3,726 million). Cash and cash equivalents are at a floating rate and due within three months.

In 2005 the following financial instruments of the Company were exposed to interest rate risk:

Fixed rate

	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
Fixed rate borrowings	(486)	(486)	(458)	(429)	(393)	(393)	(2,645)
Derivatives	(15)	(15)	(14)	(14)	(12)	(12)	(82)

Floating rate

	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
Cash and cash equivalents	3,107	-	-	-	-	-	3,107
Inter-company loan	700	-	-	-	-	-	700
Floating rate borrowings	(133)	(143)	(154)	(165)	(177)	-	(772)
Derivatives	(55)	(60)	(64)	(69)	(74)	-	(322)

Interest at floating rates on financial instruments is recalculated at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. Other financial instruments not included in the above tables are non-interest-bearing and are therefore not subject to interest rate risk.

29. Financial instruments (continued)

Credit risk
There are no significant concentrations of credit risk.

Hedging activities
In 2005 the Company designated cross-currency swap contracts related to loans drawn from the EIB as hedges of future cash flows. The cross-currency swap contracts were negotiated to match the terms of the loans. The hedge of future cash flows was assessed to be highly effective and an unrealized gain of SKK 6 million, net of related deferred tax of SKK 2 million, was charged to equity. From June to September 2006 the Company repaid the loans drawn from the EIB and at the same time settled the related cross -currency swaps. The amount previously accumulated in equity was recycled to profit and loss.

In addition, the Company entered into cross-currency swaps to hedge its exposure to changes in foreign exchange rates related to loans drawn from the WB (denominated in US Dollar and Currency Pool Unit - CPU). Hedge accounting was not applied to these contracts. The cross-currency swaps were settled at the same time as the repayment of the loans drawn from the WB in September 2006.

At 31 December 2006 the Company had no derivative financial instruments.

Independent Auditor's Report

ERNST & YOUNG

Independent Auditor's Report

To the Shareholders of Slovak Telekom, a.s.:

We have audited the accompanying financial statements of Slovak Telekom, a.s. ('the Company'), which comprise the balance sheet as at 31 December 2006 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2006 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

14 March 2007
Bratislava, Slovak Republic

Ernst & Young

Ernst & Young Slovakia, spol. s r.o.
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Ing. Jana Švarcová
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