Annual Report 2010

Life is for sharing.

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I. Introduction of Slovak Telekom Group

Letter To Shareholders

Dear Shareholders,

The Annual Report you have just opened contains all relevant results achieved by Slovak Telekom together with all companies forming the Slovak Telekom Group in 2010. Although Slovakia's telecommunications market in 2010 was marked by the passing economic recession, Slovak Telekom and its affiliated companies continued to provide their customers with reliable and advanced telecommunications and ICT services, which created room for the Company's development towards new business segments.

Ing. Miroslav Majoroš
Chairman of the Board of Directors
and Chief Executive Officer

The major challenge Slovak Telekom faced in 2010 was the integration with its daughter company T- Mobile Slovensko aimed at creating the most universal and comprehensive telecommunications operator capable of meeting the full array of our customers' requirements.
Thanks to several months' effort and professional management of all the processes related to the merger of both companies, on 1 July 2010 we could inform our customers of the formation of the largest and most universal operator on the Slovak telecommunications market. Slovak Telekom became the legal successor of T- Mobile Slovensko and continued to provide its solutions and services under the business brands T-Com and T-Mobile.

In 2010, the Slovak Telekom Group reported consolidated earnings above EUR 934 million, generated also by the year-on-year growth in revenues from services and products provided via the fixed network infrastructure. These among others include ICT services and solutions marketed by our daughter company PosAm.

Slovak Telekom in the past year confirmed its outstanding financial position expressed by the indicator EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) totalling EUR 393.1 million. Effective management of resources contributed to the creation of free operating cash flow of EUR 251.7 million, which gives us an excellent basis for the financing of necessary investments and innovations in the future period from our own resources.

In 2010, the Slovak Telekom Group retained its leading position in the field of telecommunications despite the fact that the market was characterised by a gradual decrease in customer demand for the so-called fixed voice, high saturation in mobile voice services and strong competitive pressure on the reduction of prices. In spite of that, the Group kept a very high level of revenue attributable to fixed and mobile broadband internet services, digital television Magio and internet service content. In the field of mobile communications, the share of invoiced service segment kept increasing in the overall customer base while there was also a rise in the share of non-voice services in total revenues.

The dynamic growth of customers with our digital Magio TV became a symbol of our Company's successful positioning in the segment of multimedia services and home entertainment. In early 2010 we started offering our customers a satellite variant of the popular TV product and throughout the year we managed to attract more than 40,000 customers, which exceeded our original expectations. Also thanks to this achievement, we can refer to the past year as a breakthrough point as Slovak Telekom now offers entertainment in the form of the Magio TV product over the metallic and optical network as well as via satellite to more than 125,000 customers. Magio is becoming a synonym for state-of-the-art digital television in Slovakia.

Other key components of our product portfolio in the past year comprised broadband internet, which we offer to our customers on fixed and mobile networks. Fixed internet connection – Magio internet, was in 2011 among the most popular and the total number of accesses reported an increase to 436,000. Today, customers can benefit from the ever-increasing quality of the metallic network for fast transmission of their data along with the ongoing expansion of the optical network offering transmission rates up to 80 Mbps. In the area of mobile internet, Slovak Telekom continued to market services based on two technologies: Flash – OFDM and 3G with HSDPA/HSUPA).

Voice services, provided over the fixed and as mobile networks, formed a part of our portfolio and in 2010 attracted significant attention of customers. In the area of fixed network services, the past year was marked by increasing demand for optional calling plans with its share reaching 95% of all the calling plans available to our clients. At the same time, voice services were an important part also of the optical FTTx-based offers.

In the area of mobile voice price plans, the segmented approach of the Company to its customers was gaining ground. The Company offered in various campaigns, under the T-Mobile brand, several add-on service packages and price plans where the customer could create a customised price plan compiling the best possible combination of services based on their preferences and user habits. Along with that, Slovak Telekom in 2010 introduced to the market almost 50 new promotional handsets.

In the past year, Slovak Telekom implemented a project aimed at consolidation in the fields of premium, content, entertainment and information services on three screens in order to tap into cross-sell and up-sell effects between individual environments. The activity resulted in a concept named Digital Life Centre born in July 2010 comprising several goals running from September 2010 for a period of two years. The customer could use various services available already in 2010 on their PC over the internet (on the Zoznam portal), mobile handset; several services were available also via TV screens with the Magio TV service.

In 2010, the development of digital music intensively continued focusing on the target audience for whom music is highly relevant. It turned out that the "ideal screen" for this segment is the PC, i.e. the internet; while the most appropriate "mediating and charging tool" is the mobile handset. This approach was followed in autumn 2010 with the development of the integrated project hudba.sk, with respect to which the Company registers dozens of albums within the "Zaplať koľko chceš" (Pay as Much as You Wish) concept, under which the customer selects the price they want to pay for the selected music using a premium text messaging (SMS) service.

The development of a new role for the mobile handset as a convenient interactive payment tool for consumer goods without a direct link to a bank account and with direct payment to the mobile operator continued to grow also in 2010. Compared to 2009, the customer demand, number of services in the portfolio as well as revenue in this area grew in double-digit rates.

In the field of internet content, the key role was played by our internet portal Zoznam.sk. In 2010, Zoznam managed to fulfil the strategy of gradual transition of internet content to mobile displays. Utilisation of the internet using smart phones keeps constantly growing and also there have been changes in mobile surfers' behaviour. Access to the internet via mobile handsets, previously used mainly for checking emails, web search and internet banking is presently becoming similar to the style of desktops.

The year 2010 was for Slovak Telekom significant with respect to the ongoing transformation into a comprehensive information and communication service provider. From this perspective the key step was the acquisition of PosAm, a leading provider of application solutions, services and infrastructure solutions for corporate clients, by Slovak Telekom and tapping on synergy effects related to the transaction.

Last year, PosAm has created and realised many own services, application and infrastructure solutions in key business segments and important sectors like banks, financial institutions and insurance companies. Furthermore, PosAm has prepared infrastructure solutions within application offering, storage, back-up, archives, virtualisation or creating and realising security solutions for internet access or company information.

The beginning of construction of the modern data centre in Bratislava marked a significant milestone in the strategy, aimed at positioning our Company as an advanced information and communication operator. Račianska street will thus gradually see the building of a super modern five-storey complex with the total space of 1,200 sq. metres for the housing of ICT technologies, from the very beginning it was designed to meet the most stringent technological, security and environmental standards. The construction of the data centre meeting GREEN IT principles is financially more demanding but its operation at the same time generates long-term savings for both the operator and customers using its services. The opening of the new data centre is scheduled for the end of the first half of 2011.

Also in 2011, Slovak Telekom will continue to deploy new technologies, services and products into its portfolio. The Company strives to promptly react to global trends in telecommunications, while constantly focusing on increasing customer satisfaction.
Among our most ambitious goals is the expansion in the basis of the mobile broadband user; a goal, which we want to support with the implementation of the HSDPA+ and LTE technologies thus creating room for the utilisation of further multimedia applications on all three screens – PC, mobile phone and digital television.

Also in the past year the Slovak Telekom Group conducted its business activities in line with corporate responsibility principles, which were implemented in everyday business activities. Our Company follows a clear strategy in the field of philanthropic and volunteering activities using transparent tools, monitored by the general public, for its implementation.

An absolute priority for our Company in 2011 will be to continue in its internal transformation; the ever-changing requirements of our customers and the capacity to respond to competitive challenges translate into our target to be even more efficient from the perspective of internal processes and related costs.

The responsibility of management is to ensure retaining our position in segments where further growth is not possible and to identify business segments, which will safeguard future market success and development of our Company.

Our mid-term goal is to again achieve growth in revenue and further reduction of expenses in order to create sufficient financial resources for investments in product and service innovations.

I am convinced that also during this year, we will be able to adopt strategic decisions and implement systemic measures enabling us not only to keep the position as the largest telecommunications operator on the market but also to become the best operator whose services and solutions will be beneficial for all customer segments. v.

Miroslav Majoroš
Chairman of the Board of Directors
and Chief Executive Officer

2010 Milestones

(Company Business and Financial Report)

January

- **Launch of Magio Sat Sale:** Slovak Telekom commercially launched the digital satellite television with no less than three methods of digital television transmission – besides the metallic and optic networks, satellite with Slovakia-wide coverage was added. The project was prepared in cooperation with Magyar Telekom and it is an excellent example of synergy within the Deutsche Telekom Group.
- **New Magio TV Channels:** The Magio via IPTV portfolio was enriched with 12 more channels, such as Kino CS, TV Paprika, History Channel, TV Dekó, Filmbox HD, Eurosport HD, Discovery HD, National Geographic HD and History Channel HD.
- **Increased Optic Network Coverage:** Early in 2010, optic network was available for as many as 315,000 households.
- **SOS Haiti:** EUR 10,000 from the Nadačný fond Slovak Telekom (Slovak Telekom Endowment Fund), the Nadácia Intenda (Intenda Foundation), was donated to aid people affected by the destructive earthquake in Haiti; an additional, EUR 2,506 was collected by employees.
- **Topky.sk in Mobile Phones:** In the previous year, Zoznam brought its news service also to the iPhone in the form of a specialized application; in 2010 it launched an optimized version of the portal that enables efficient access to news items for other modern mobile phones as well. Zoznam continued in its strategy of online content transfer to mobile phone displays throughout the whole year.
- **Free.sk Re-design:** a re-designed version focuses on two main areas - video and images. The modifications were a result of an in-depth analysis of user behaviour that defined the aforementioned core services.

February

- **Via Bona 2009:** T-Mobile received an Award for Responsible Market Conduct in the field of corporate responsibility for the Paušál pre nepočujúcich (plan for the hearing-impaired) and an Award for Innovative Social Inclusion Solutions with respect to the company's long-term impact on the community of the deaf and the hearing-impaired.
- **Mobilný internet (Mobile Internet) EUR 0:** T-Mobile commercially launched the first broad-band internet on the pre-paid Easy cards.
- **Extended Radio Offer:** HEY, Jemné melódie, Európa 2, Klasika, Litera, Patria, Kiss and Rádiožurnál radio stations were added to the Magio TV service via fixed networks.
- **Traffic Time-tables in Mobile Phones:** For mobile users, Zoznam introduced a practical and flexible tool for accessing information about bus or train departures. Time-tables were thus added to the group of products that saves both time and money for mobile surfers, as the reduced data volume resulted in faster page loading time.
- **Môjdom.sk Re-design:** Zoznam introduced a new design of the most popular Slovak housing and living magazine mojdom.sk. The objective of the changes was not only to modify and modernize page design, but also to enhance the functionality with new content and control features.
- **Športky on iPhone:** It is the second application by Zoznam that can be downloaded free of charge from the standard Apple Store interface. As in the case of Topky, the content of the sports portal is quickly accessible and articles are displayed in high resolution with easy access to information.

March

- **Internet for Senior Citizens:** Magio Internet Turbo Mini (Solo) and Optik Mini plans for customers above 55 were launched under the T-Com Brand.
- **Protection of Children:** Participating in the preparation of a brochure on protection of children on the internet for teachers as a learning aid.

- **T-Mobile Music City:** A series of town festivals with 24 hours of free music started in Žilina.
- **A Plan for the Most Exacting Customers:** T-Mobile launched a new version of the Podnikateľ (Entrepreneur) 1200 plan.
- **Športoviská.sk:** It offers the users a simple way to search for information about sports facilities in one location, without the need for time consuming searching. The page contains an overview concerning the availability of various sports in individual regions of Slovakia.
- **NajPes.sk:** The internet portal Zoznam announced the second year of the popular competition, which is to find the “Naj” (Best) Dog.

April

- **Employees Volunteering:** Collections of clothing, medical supplies, books and toys for children.
- **Training of Sales Representatives in Sign Language:** 48 employees in T-Centres learnt the basics of sign language.
- **Mikropayment:** Integration of “Mikropayment” (micropayments) in cooperation with A-SMS.
- **SMS Notification of E-mails at Zoznam Mail**. Zoznam Mobile in cooperation with Zoznam.sk prepared for its users an SMS notification service, with which users are immediately notified of new e-mails.

May

- **A New Mobile Internet Portfolio:** T-Mobile changed the whole portfolio of mobile internet plans and introduced plans with 500, 5,000 and 10,000 MB.
- **4th Year of the Magio Beach:** Opening of the town beach in late May for another season, for citizens and visitors to Bratislava, offering them a wide range of relaxation and entertainment opportunities and sports activities on the bank of the Danube. The Magio Beach was open for more than 100 days completely free of charge.
- **The Dobrý anjel (Good Angel) Month in T-Centres:** Sales representatives wore the Dobrý anjel badges and informed customers about the new possibility to activate regular monthly contributions to the Dobrý anjel system upon activation of services in T-Centres, thereby helping sick children.
- **For Cultural Society:** As part of the 9th grant round of the Nadačný fond Slovak Telekom (Slovak Telekom Endowment Fund) with the Nadácia Intenda (Intenda Foundation), 21 contemporary Slovak art projects from various regions of Slovakia were supported with the total amount of EUR 80,000.
- **Million at Topky.sk:** According to AIMmonitor that maps the visit rates of Slovak internet portals, Topky.sk - the most visited Slovak news portal, which is part of the product portfolio of Zoznam, for the first time exceeded a million visitors.
- **mojdom.sk in Mobile Phones:** After the re-design in February, more new features were added to the magazine designed for all the people interested in reconstructions, innovations and some inspiration for their houses or flats. The online magazine Môj Dom in an easy-to-use format is accessible for mobile surfers.
- **oPeniazoch.sk Redesign:** After its redesign, the layout and overall design of the financial magazine oPeniazoch.sk are now similar to those of the other magazines from the Zoznam.sk internet portal portfolio.

June

- **Start of the State-of-the-Art Data-Centre Construction:** Top representatives of Slovak Telekom tapped the cornerstone of the new low-energy data centre in Bratislava. From the very beginning, the new building was designed as a data-centre; therefore great emphasis was put on the security standards and GREEN IT principles, which will result in significant energy saving with respect to cooling and power supply.
- **MicroSIM Card in Portfolio:** T-Mobile is the first Slovak operator to offer micro-SIM cards that are needed for the latest products brought by Apple.
- **Data Roaming:** T-Mobile launched new plans with larger data packages designed for data roaming in the European Union and other selected countries.
- **Security on Football Stadiums:** A new, unique camera system protects football fans from rampaging hooligans at the national league stadiums in Bratislava (ŠK Slovan), Senica, Žilina, Dubnica nad Váhom and Michalovce. So, Slovak Telekom

brought a comprehensive solution concerning security at Slovak stadiums that is to enhance overall security for visitors to football matches.

- **A Little Great Gift:** As to their own activities, company employees are encouraged not only to donate blood but also to join the Národný register darcov kostnej drene (Slovak National Bone Marrow Donor Registry).
- **Football Connecting People:** Well-known personalities and children from orphanages in Holíč and Zlatovce played an unusual beach football exhibition game. Furthermore, a public collection Úsmev ako dar (Smile as a Gift) started with the aim to support children from orphanages with the first contribution being from Slovak Telekom.
- **Floods:** Damaged equipment was replaced and service fees were waived to customers in the affected regions. Nadačné fondy Slovak Telekom (Slovak Telekom Endowment Funds) donated EUR 30,000 as an aid to the victims and EUR 4,542 was collected by employees for a summer camp for children that had lost their homes due to the floods.
- **Dievča leta (The Girl of the Summer):** Zoznam.sk started another round of one of the most popular summer contests. Unlike in the previous year, users could vote for their selected contestants via SMS.
- **Family House Projects:** The Zoznam.sk internet portal and the JAGA publishing house launched their fourth joint project that conveniently supplements the portfolio of internet portals on housing and living with its specific content.
- **JUKEBOX via SMS – Magio Beach:** In cooperation with Slovak Telekom, Zoznam Mobile prepared a service enabling Magio Beach visitors to order music via SMS; the music would then be played to the whole area at Magio Beach.

July

- **Integration of Companies:** Slovak Telekom and T-Mobile Slovensko were merged as at 1 July 2010.
- **New Web'n'walk Service Portfolio:** Slovak Telekom launched completely new mobile internet plans under the T-Mobile brand designed for telephones, including specific plans for e-mail or social networks.
- **First Combination of Fixed and Mobile Network Services:** The basic start-up package Mobile Internet EUR 0 with 3G equipment offered free of charge also when Magio Sat service is ordered.
- **New Weather Info:** Zoznam.sk enhanced their weather forecasts service at a separate domain www.predpovede.sk. It offers its users a new likeable and user-friendly web page with many functions, making it more user-friendly.

August

- **100,000 Customers of Magio Digital Television:** The satellite version of the Magio television that excellently supplements the Magio IPTV "flagship" considerably helped to surpass this number.
- **Higher Speed in Fixed Network:** An increase in the speed of Magio Internet Turbo 3 plan from 3.5 Mbps to 6 Mbps.
- **iPhone 4 in Slovakia:** Slovak Telekom under the T-Mobile brand introduced one of the most awaited mobile phones of the year.
- **Zoznam Klub:** in cooperation with the Zoznam.sk portal and the ICommerce company, Zoznam Mobile prepared a web page with entertaining mobile content that offers its visitors to download wallpaper and images for Zoznam Kredity (Zoznam Credits).

September

- **The 7th Sense Project:** A successful PR campaign that connected the world of those who hear with the world of the hearing-impaired and in which 7 well-known personalities participated – they were to cope with every-day situations while using only sign language.
- **Sign-language Workshop for the Public:** With the aim to converge on the world of those who can hear with the world of the hearing-impaired, the company organized a workshop in the High Tatra Mountains; 20 people received training in sign-language, which was fully paid by Slovak Telekom.
- **Discounts on Mobile Internet for the Hearing-impaired:** Slovak Telekom added a new item to its products that is designed for only the hearing-impaired – Mobile Internet with 40% overall discount.

- **tvister.sk:** Zoznam Mobile with the support of the Zoznam.sk internet portal and in cooperation with the Deutsche Telekom company launched a new intelligent television plan called tvister.

October

- **Christmas campaign in every segment:** Slovak Telekom under T-Com and T-Mobile brands launches one of the biggest Christmas campaigns covering voice, internet and television service segments. The campaign gradually offers the latest mobile phones as well as gifts for customers.
- **Looking for Another Sense – FOR BUSINESS:** the fourth year of the programme supporting education and counselling started; the programme also assists at the start of business of particular hearing-impaired people.
- **111,111 Customers of Magio Digital Television:** Digital television on metallic and optic networks along with the new Magio Set passed another milestone with respect to the number of customers.
- **We Help the Community:** Slovak Telekom announced an employee grant programme to support community projects all over Slovakia.
- **PPC Advertisements on Mobile Phones:** In cooperation with the ETARGET Company, Zoznam was the first player on the Slovak market to address users accessing the internet via various types of modern mobile phones while travelling not only with banners but also with context PPC advertising.
- **Hudba.sk:** This new item is designed for all users interested in music and everything related to music, as well as for songwriters and musicians or singers.
- **Catalogue Search:** Zoznam Katalóg surpassed the number of 100,000 entries and became one of the largest and high-quality catalogues on the Slovak internet.
- **Touch Versions of wap tzones.sk:** In cooperation with ST (T-Mobile), Zoznam Mobile prepared a touch screen wap version of tzones.sk. Smartphone users can enjoy more aesthetic and well-arranged sites with entertaining mobile content (wallpapers and ring tones) adjusted for smart phones.

November

- **Magio Sat:** After the first nine months following the service launch, Slovak Telekom had 30 thousand customers of this service. In addition, the company introduced the Magio Sat Bez záväzkov (Magio Sat without Commitments) alternative that is designed for customers that do not like subscription periods and regular monthly fees. For a one-off fee, they can enjoy the advantages of Magio television in a comprehensive package including the service and equipment.
- **Magio Pošta (Magio Mail):** Digital Magio television through fixed networks was enhanced with a new functionality. The service is used to inform customers about changes, news or other important information concerning the Magio service. Magio Pošta also enables reviewing invoices issued by Slovak Telekom.
- **The First Tablet in the Portfolio:** Slovak Telekom added the first tablet in its data equipment portfolio: the Huawei S7.
- **Corporate Philanthropy Forum:** The company became the main partner of a conference on new trends in philanthropy.
- **A New PC Lab for Health-impaired Children:** Slovak Telekom donated to the Domov sociálnych služieb Hrabiny (Institute of Social Services) in Nová Baňa a computer laboratory that is to help children with mental, health or combined impairment to overcome communication barriers and improve their computer skills.
- **Telekom Day:** At the sixth annual expert conference for technical university students in their last year of study, students had a unique opportunity to learn about the latest trends and visions directly from experts. The main topic of the conference was integration of technologies.
- **Rajknih.sk:** Zoznam.sk internet portal in cooperation with the MB Entertainment company offers the possibility to all book aficionados in both Slovakia and the Czech Republic to read new books by Slovak, Czech and foreign authors in an electronic format – as ebooks. Books can be paid for simply via mobile phones.
- **"Lepší web" (Better web):** Creating professional ready-to-use web sites for everyone.

- **Free.sk on Magio:** Free.sk application on Magio TV constitutes one of the first steps to the "three-screens" concept in which a user can record a video clip to a mobile phone, send it to a server via their PC or mobile phone and subsequently the users or their friends in another part of the country can watch in on TV screens in the comfort of their living rooms.

December

- **Samsung Galaxy Tab:** Slovak Telekom added one of the most awaited tablets to its portfolio with voice and data plans.
- **Simple Change of Services:** Customers can change the ordered Magio plan and premium service packages via fixed networks on their own. Using the remote control, they can simply choose which packages and channels they wish to order.
- **Another Enhancement of Magio plans:** The digital Magio television portfolio was extended with 13 new television channels, primarily of movie and documentary genres. So, the Magio television through optic or metallic network recently offers as many as 94 television channels.
- **Decision on the pecuniary penalty annulled:** On 3 December, the Regional Court in Bratislava annulled the decision of the Antimonopoly Office of the SR on the pecuniary penalty for the company of EUR 29.3 mil. (SKK 885 mil.) for the abuse of the dominant position by the company in the period from 2002 to 2005.
- Slovak Telekom Recognised Teachers: As part of its support to informatization, for the fifth time the company awarded the Cena Slovak Telekom (Slovak Telekom Award) to 16 teachers from all over Slovakia for their inventive use of information-communication technologies in teaching, which constitutes a financial award up to EUR 1,400 for a teacher and his school.
- EMF Policy Approved: Slovak Telekom joined the policy of the Deutsche Telekom Group that regulates the strategy and procedures regarding electromagnetic emissions.
- New Maps: Zoznam.sk internet portal modified its original map solution and came up with a completely new design and functionality. Comfortable manipulation, well-arranged design, logical order of control tools—mapa.sk responds to all important criteria and expectations of its users.
- **Re-design of Magazines:** mojdom.sk and Feminity.sk continued in the trend of unifying visual presentation. Common features in the design of the magazines are to make the work with information and orientation easier for all users.

- **(Information on the financial status of the company is included in Section IV with separate and consolidated financial statements of the company.)**

Slovak Telekom Group Profile

The Slovak Telekom Group is part of the worldwide Deutsche Telekom group of companies. The magenta T is an unmistakable graphic symbol of all group companies and it also stands for the globally applied values honoured by their employees.

Values identical for all companies forming the Deutsche Telekom Group:

- Customer delight drives our action
- Respect and integrity guide our behaviour
- Team together – Team apart
- Best place to perform and grow
- I am T – Count on me

Companies within the Group

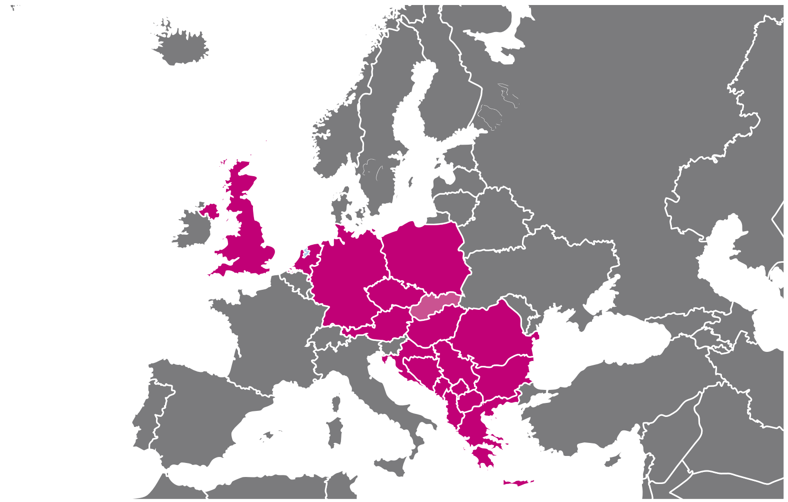
The Slovak Telekom Group comprises the parent company Slovak Telekom, a.s. (Slovak Telekom) and its subsidiaries Zoznam, s.r.o. (Zoznam), Zoznam Mobile, s.r.o. (Zoznam Mobile), Telekom Sec, s.r.o. (Telekom Sec), and PosAm, spol. s r.o. (PosAm; from 29 January 2010). An association of legal entities - the Institute of Next Generation Networks (Institute of NGN) that is in liquidation (in liquidation as of 28 February 2010), is also part of the Slovak Telekom Group.

Until 30 June 2010, T-Mobile Slovensko, a.s. was part of the Slovak Telekom Group; as of 1 July 2010, T-Mobile ceased to exist due to its merger with Slovak Telekom. Slovak Telekom continues to use the T-Mobile brand for the portfolio of mobile communication services.

The Slovak Telekom Group as the provider of comprehensive telecommunications services offers its customers fixed network services, internet connection, digital television services, data services, sale of terminal equipment and commercial call centre services (under the T-Com brand), mobile communication services (under the T-Mobile brand), internet content (Zoznam and Zoznam Mobile), as well as security services (Telekom Sec). The Institute of NGN was an association of legal entities to support development of NGN technology in Slovakia. It was dissolved by a decision of the ordinary General Meeting as of 28 February 2010 and it has been in liquidation.

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

Presence of Deutsche Telekom AG in Europe



Source: Slovak Telekom

Slovak Telekom, a. s.

Slovak Telekom is the largest telecommunications operator with many years' experience and international expertise, bringing innovative technology trends to the Slovak telecommunications market. The Company owns and operates a telecommunications network, which covers the entire territory of the Slovak Republic.

The company provides national and international voice services and a wide portfolio of modern data services under the T-Com brand and it is also the largest provider of broadband internet, the so-called "Magio internet" in Slovakia. It is the first Slovak multimedia operator to offer interactive digital TV via both fixed (metallic and optic) network and DVB-S2, the latest satellite technology. The Company operates one of the largest next generation networks (NGN) enabling the use of voice and data services on one common IP platform. In order to be able to provide Slovakia's citizens with new and more convenient services, the Company has invested in an extension of its optical infrastructure.

Under the T-Mobile brand, the company offers mobile communication services. It is the only operator in the Slovak Republic to provide its customers mobile access to the internet via four high-speed data transmission technologies - GPRS/EDGE, Wireless LAN (Wi-Fi), UMTS FDD/HSDPA and FLASH-OFDM and it is also the operator with the highest number of roaming partners. Customers can use roaming services in 404 mobile operator networks in 202 locations all over the world, and GPRS a MMS roaming with 212 GSM operators in 108 destinations worldwide.

Slovak Telekom is certified for quality management in line with EN ISO 9001:2008, information security management system under ISO/IEC 27001: 2005 and the environmental management certificate according to EN ISO 142001:2004 standard. Slovak Telekom is a part of the international group of companies - Deutsche Telekom Group.

- **Registered Office:** Karadžičova 10, 825 13 Bratislava
- **Legal Form:** Joint-stock company
- **Entered into Companies Register:** District Court of Bratislava I, Section: Sa, Insert No.: 2081/B
- **Date of Incorporation:** 1 April 1999
- **Identification and Tax Information:** Company ID No (IČO): 35 763 469, Tax Payer ID (DIČ): 2020273893, VAT ID (IČ DPH): SK 2020273893,
- **Banking Information:** Tatra banka, a.s., Bank Account Number: 2628740740/1100, IBAN: SK28 1100 0000 0026 2874 0740

Principal Business Activities of the Company:

- provision of telecommunications services against payment (transmission, processing, creation and mediation of information) for individuals and legal entities, namely voice, graphical, picture, data, information and multimedia telecommunications services and all combinations thereof,
- setting up, operation, construction, maintenance, and servicing of the telecommunications equipment, 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 the telecommunications sector related to the business activities of Slovak Telekom, and proposing prices and tariffs for domestic and international services, including billing and clearing thereof.

Shareholder Structure:

- Deutsche Telekom AG owns 51 % of shares;
- The Slovak Republic, represented by the Ministry of Economy of the Slovak Republic owns 34 % of shares;
- National Property Fund of the Slovak Republic holds 15 % of shares.

Zoznam, s. r. o.

One of the most frequently visited Slovak internet portals, Zoznam.sk – www.zoznam.sk, operated by the Zoznam, s.r.o. was established in 1997. It specializes in Slovak internet website search and it also offers to internet users everything that the Slovak internet can offer, all that in a well-arranged format. Therefore, Zoznam.sk today offers over 40 online products. The most important products of the Zoznam.sk portal include a news server Topky.sk, specialised magazines (Mojdom.sk, Dromedar.sk, oPeniazoch.sk, Autoviny.sk, Feminity.sk, oZene.sk, Rexik.sk, Baby-web.sk, Urobsisam.sk), and the freemail service mail.zoznam.sk, community gaming portal Pauzicka.sk, community portal for sharing multimedia content Free.sk, job portal Kariera.sk and a free system for creating web pages Meu.sk. A catalogue of companies "Katalóg firiem" is an important part of the Zoznam.sk service portfolio, enabling small businesses to present themselves and their contact information professionally on the Internet. In 2010, Zoznam continued transferring its content to mobile phone displays and to television (Magio) and started implementing the three-screen strategy, i.e. accessibility not only in an online environment, but also in another two – mobile and television screens. This way, in 2010 Zoznam enabled access to information from Topky.sk, Mojdom.sk, traffic time-tables and the Kariera.sk job portal. As the ten most popular products are available with resolution suitable for various types of mobile phone displays, Zoznam was the first player on Slovak internet to sell not only banner advertisements, but also PPC advertisement formats for the mobile versions of its pages. The trend of unifying the design of its magazines offering specific content has continued. The objective of innovated Free.sk, Mojdom.sk, oPeniazoch.sk and Feminity.sk is to enable users comfortable and easy navigation. New projects that conveniently supplemented the Zoznam product portfolio and introduced new content and advertisement opportunities included a guide to Slovak sports facilities Športoviská.sk, a compact overview of family home projects on www.projektyRD.sk, a portal providing plenty of information and data about weather forecasts predpovede.sk, an intelligent television guide called tvister, a guide to the world of music hudba.sk, e-books at Rajknih.sk, latest maps of Slovakia at mapa.sk and a project enabling companies to present themselves on the internet LepšíWeb.sk.

An independent audit by Mediaresearch company in November 2010 showed the visit rate of Zoznam.sk portal and its products (except Topky.sk) totalling 1,674,160 real users (RU). Compared to the previous year, the number of real users regularly visiting Zoznam internet pages increased by 169,597 RU, which is approximately a 10% year-on-year increase in the visit rate. The visit rate of Topky.sk during the same period was approximately 982,905 real users and compared to the previous year saw an 8% rise.

- **Registered Office:** Viedenská cesta 3 – 7, 851 01 Bratislava
- **Legal Form:** Limited liability company
- **Entered into Companies Register:** District Court of Bratislava I, Section: Sro; Insert No.: 24598/B
- **Date of Incorporation:** 1 January 1998
- **Identification and tax information:** Company ID No (IČO): 36 029 076, Tax Payer ID (DIČ): 2020091997, VAT Reg. No. (IČ DPH): SK2020091997
- **Banking information:** Tatra banka, a.s., Bratislava branch, Bank Account Number 2624131673/1100

Principal Business Activities of the Company:
- provision of information and advertising services by means of computer technology,
- advertising and promotional activities,
- consulting 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.

The company was founded in 2002 when it started to operate mobile internet content services such as the sending of logos, MMS and ring-tones. It ranks among the leading companies providing mobile technology and solutions. The company offers high-quality, secure and proven solutions, tailor-made according to the projects requiring easily extendible functions upon the client's needs.

- **Registered Offices:** Viedenská cesta 3-7, 851 01 Bratislava
- **Legal Form:** Limited liability company
- **Entered into Companies Register:** District Court of Bratislava I, Section: Sro, Insert No.: 27440/B
- **Date of Incorporation:** 30 September 2002
- **Identification and tax information:** Company ID No (IČO): 35 844 621, Tax Payer ID (DIČ): 2020288732, VAT ID No (IČ DPH): SK2020288732
- **Banking information:** Tatra banka, a.s., Bank Account Number 2620748430/1100

Principal Business Activities of the Company:

- advisory and consultancy services in the field of commerce, advertising, software, automation, electrical engineering and informatics,
- advertising, publicity 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.

Telekom Sec, s. r. o.

The company was established by a Memorandum of Association dated 22 September 2006 pursuant to Amendment 1 of 23 October 2006.

- **Registered Office:** Kukučínova 52, 831 03 Bratislava
- **Legal Form:** Limited liability company
- **Entered into Companies Register:** District Court of Bratislava I, Section: Sro, Insert No. 42889/B
- **Date of Incorporation:** 25 October 2006
- **Identification and tax information:** Company ID No. (IČO): 36 691 143, Tax Payer ID (DIČ): 2022269865, VAT ID No (IČ DPH): SK2022269865
- **Banking information:** VÚB; Bank Account Number: 2233303757/0200

Principal Business Activities of the Company:

- automated data processing,
- mediation of services in the area of information technologies within the scope of general authorisation (open business licence),
- information technology service – licensed software installation and configuration,
- technical and organisational arrangement of seminars, courses, conferences, and training within the scope of general authorisation (open business licence),
- 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.

Institute of NGN

The Institute of Next Generation Networks, an association of legal entities, currently in liquidation, was founded by Slovak Telekom and Žilinská univerzita (University of Žilina). The association was established as of 23 October 2006 upon its incorporation in the Associations Register. It was dissolved by a decision of the ordinary General Meeting as at 28 February 2010 and it has been in liquidation.

- **Registered Office of the Association:** Poštová 1, 010 08 Žilina, Slovak Republic
- **Legal Form:** Association of Legal Entities
- **Date of Incorporation with the Associations Registry:** 23 October 2006
- **Identification and tax information:** Company ID No. (IČO): 37983229, Tax Payer ID (DIČ): 2022268787, VAT ID No (IČ DPH): SK2022268787
- **Banking information:** VÚB, Bank Account No.: 2231898857/0200

Principal Business Activities of the Association:
- the transfer of information, experience, know-how, knowledge and best practices by and between business environment and academic communities in the area of modern networks and information-communication technologies (ICT),
- development of cooperation between industry and universities with the objective of the economic and social development of Slovakia and an increase of Slovakia's competitiveness,
- ICT development in individual regions of Slovakia and among small and medium-sized businesses,
- theoretical and practical education for students, university graduates and teachers for applying ideas and principles of an information society and knowledge-based economy, and implementation of ICT and modern methods in teaching processes,
- research and development activity in cooperation with the University of Žilina and other research & development institutions,
- application of results, research, development and innovation in practice, and creation of conditions for testing ICT products, services and applications.

Members of the Association:
- Slovak Telekom and Žilinská univerzita (University of Žilina)

PosAm, s. r.o. (from 29 January 2010)

From 29 January 2010 Slovak Telekom has owned 51% of the shares in PosAm, spol. s r.o. PosAm has been operating on the Slovak and Czech IT market since 1990. The company is certified by ISO 9001: 2000, ISO/IEC 20000-1: 2005, ISO/IEC 27001: 2005, OHSAS 18001: 2007 and ISO 14001: 2004. PosAm is the holder of the National Quality Award and as the first Slovak based company it was granted the award "Recognized for Excellence in Europe" by the European Foundation of Quality Management (EFQM). PosAm became a full EFQM member in 2007. PosAm focuses on providing IT services, application solutions and infrastructure solutions to corporate customers. National and international quality awards together with unique implementations of its solutions and services underline its strong market position in the area of information technology in Central Europe. Long term relationships with partners like Citrix, Hewlett-Packard, IBM, Microsoft and Oracle, investments into employee training, innovative and visionary potential of the company's management ensure continuous improvement and top performance. PosAm's main goal is to deliver useful solutions to customers and partners which are unique and based on information technologies.

- **Registered Office:** Odborárska 21, 831 02 Bratislava
- **Legal Form:** Limited liability company
- **Entered into Companies Register:** District Court of Bratislava I, Section: Sro; Insert No.: 6342/B
- **Identification and tax information:** Company ID No. (IČO): 31 365 078, Tax Payer ID (DIČ): 2020315440, VAT ID No (IČ DPH): SK2020315440
- **Date of Incorporation:** 3 January 1994

Principal Business Activities of the Company:
- Provision of application solutions, services and infrastructure solutions for corp. clients

T-Mobile Slovensko, a.s. (until 30 June 2010)

T-Mobile Slovensko was a leading telecommunications company providing mobile voice and data communications services in Slovakia. The sole shareholder of T-Mobile Slovensko was Slovak Telekom, a subsidiary of Deutsche Telekom AG. T-Mobile Slovensko was the first mobile operator to introduce the multimedia messaging (MMS) service, as well as the EDGE technology and BlackBerry solutions in Slovakia, and to launch the commercial operation of the UMTS third generation network. T-Mobile Slovensko was the first mobile operator in the world to launch the FLASH-OFDM mobile data technology on a national level, based on which it provided its customers with the Rýchly internet service (Fast Internet), mobile broadband Internet access available in Slovakia. T-Mobile Slovensko provided its customers with mobile Internet access over four high-speed data transmission technologies – GPRS/EDGE, Wireless LAN (Wi-Fi), UMTS FDD/HSDPA and FLASH-OFDM.

- **Registered Office:** Vajnorská 100/A, 831 03 Bratislava
- **Legal Form:** Joint-stock company
- **Date of Incorporation:** 16 December 1996
- **Identification and tax information:** Company ID No (IČO): 35 705 019, Tax Payer ID (DIČ): 2020264829, VAT ID No (IČ DPH): SK 2020264829
- **Banking information:** Tatra banka, a.s., Bank Account No.: 262 102 3511/1100, IBAN:SK93 1100 0000 0026 2102 3511

Principal Business Activities of the Company:
- establishment and operation of public mobile telecommunications networks on 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,
- provision of a public mobile telephone service and a full scope of data and multimedia services, via the third generation mobile network,
- establishment and operation of a fixed telecommunication network for the purposes of interconnection or connection of facilities of the third generation mobile network,
- 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 SR,
- 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,
- advisory activities in the area of the public packet network for data transmission.

Shareholder Structure:
- 100 % of shares owned by Slovak Telekom.
- T-Mobile Slovensko ceased to exist as of 1 July 2010, due to its merger with Slovak Telekom. Slovak Telekom became its universal legal successor.

Membership and Cooperation with Slovak Associations by Profession and Industry; Involvement in International Organisations

Slovak Telekom is an active member of the following Slovak organisations:

- Slovenská obchodná a priemyselná komora – SOPK (Slovak Chamber of Commerce and Industry)
- Americká obchodná komora v Slovenskej republike (American Chamber of Commerce in the Slovak Republic)
- Slovensko-nemecká obchodná a priemyselná komora (Slovak – German Chamber of Commerce and Industry)
- Republiková únia zamestnávateľov – RÚZ (National Union of Employers)
- Podnikateľská aliancia Slovenska – PAS (Business Alliance of Slovakia)
- Fórum pre komunikačné technológie – CTF (Communications Technologies Forum)
- IT Asociácia Slovenska – ITAS (IT Association of Slovakia)
- Slovenská asociácia pre káblové telekomunikácie – SAKT (Slovak Association for Cable Communications)
- Slovenská asociácia pre elektronický obchod – SAEC (Slovak Association of Electronic Commerce)
- Fórum kreatívneho priemyslu – CIF (Creative Industry Forum)
- Inštitút pre elektronickú zdravotnú dokumentáciu – Prorec (Institute for Electronic Healthcare Records)
- Klub firemných darcov (Corporate Donors Club)
- Business Leaders Forum – BLF
- HN klub ("HN" Club)
- Medzinárodný klub (International Club)
- Slovenská asociácia finančníkov (Slovak Association of Finance and Treasury)
- Združenie pre riadenie a rozvoj ľudských zdrojov (Slovak Association for Human Resources Management and Development)
- Asociácia pre prenositeľnosť čísla (Number Portability Association)
- Spoločnosť pre projektové riadenie (Project Management Association of Slovakia)
- Slovenská asociácia pre vedomostnú spoločnosť – SAKS (Slovak Association for Knowledge Economy)
- Rada pre reklamu – RPR (Slovak Advertising Standards Council – SASC)
- Partnerstvá pre prosperitu – PPP (Partnerships for Prosperity) (as of 1 December 2010)
- Slovenská asociácia BOZP a OPP (Slovak Association for Health Protection and Safety at Work and Fire Protection) (as of 1 January 2011)

Slovak Telekom is represented in the following international organisations:

The Company is represented in the International Telecommunications Union (ITU), where it is a member of the standardisation sector. Slovak Telekom 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)
- ETIS (E- and Telecommunications Information Services)
- ETSI (European Telecommunications Standards Institute)
- GSM Association Europe (through Deutsche Telekom)
- FreeMove Alliance (through Deutsche Telekom)

Zoznam is an active member of "Asociácia internetových médií" – AIM (Slovak Internet Media Association).

Corporate Governance

Organisational structure of the company

As a shareholder in its subsidiaries, Slovak Telekom exercises its rights by participating at general meetings, and, if appropriate, exercises the competence of the general meetings in companies in which it is the sole shareholder. It appoints its representatives to the statutory bodies of companies, which bodies then submit reports to Slovak Telekom.

Slovak Telekom 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 has long paid particular attention to the internal control environment. The company's management considers the system of the internal control environment to be an important task and Slovak Telekom as a subsidiary of Deutsche Telekom, AG, is involved in the S-OX 404 project within the Deutsche Telekom Group.

The main focus of management at Slovak Telekom in this regard is on the control of internal processes and standards. The results of internal testing of the control environment (system) 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 environment within the Deutsche Telekom Group. This statement was issued for the first time as at 31 December 2006. Slovak Telekom is a holding company, and the principles of corporate governance have been applied to all its component parts, i.e. to the parent company Slovak Telekom and its subsidiaries, which in 2010 were: Zoznam, Zoznam Mobile, Telekom Sec, PosAm and, until 30 June 2010, also T-Mobile Slovensko. All subsidiaries acted as separate legal entities.

Slovak Telekom, a.s.

An inherent component of the system of governance in 2010 was the company's organisational structure, which determines its basic arrangement, divided into:
- the company's bodies
- executive management

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's scope of authority is defined by Act No. 513/1991 Coll. Commercial Code as amended (hereinafter as the "Commercial Code") and the company's Articles of Association.

The **Board of Directors** is the statutory body of the company, authorised to act on behalf of the company in all matters and represents the company vis-à-vis third parties. The Board of Directors strategically 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 controlling body of the company. It oversees the performance of the Board of Directors' competences and the execution of the company's business operations. Supervisory Board 2010 sessions were held in March, June, October and December.

The **Executive Management Board** of Slovak Telekom is responsible for the day-to-day 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 until 30 June 2010, it also comprised a representative of T-Mobile Slovensko nominated by its Board of Directors. Members of the Executive Management Board are responsible to the Board of Directors for their activity.

Zoznam, s. r. o.

Company bodies

The **General Meeting** is the supreme body of the company. Pursuant to Section 132, Subsection 1 of the Commercial Code, the powers of the General Meeting are exercised by Slovak Telekom, as the sole shareholder. On 23 September 2010, based on a decision of the sole shareholder exercising the powers of the General Meeting, the Strategy Board of the company was established with the right to ask the company executive for information and explanations concerning the most important issues related to company management and provide its opinion on key issues and decisions of the company executive.

The **statutory body** of Zoznam is one company executive (two company executives until 23 September 2010). The powers of the company executive are stipulated in the Memorandum of Association.

Zoznam Mobile, s. r. o.

Company Bodies

The **General Meeting** is the supreme body of Zoznam Mobile. Pursuant to Section 132, Subsection 1 of the Commercial Code, the powers of the General Meeting are exercised by Slovak Telekom, as the sole shareholder. On 23 September 2010, based on a decision of the sole shareholder exercising the powers of the General Meeting, the Strategy Board of the company was established with the right to ask the company executive for information and explanations concerning the most important issues related to company management and provide its opinion on key issues and decisions of the executive.

The **statutory body** of the company is one company executive (two company executives until 23 September 2010). The powers of the company executive are stipulated in the Memorandum of Association.

Telekom Sec, s. r. o.

Company Bodies

The **General Meeting** is the supreme body of the company. Pursuant to Section 132, Subsection 1 of the Commercial Code, the powers of the General Meeting are exercised by Slovak Telekom, as the sole shareholder. The General Meeting's scope of authority is defined by the Commercial Code and the Memorandum of Association. The 2010 General Meeting session was held in March.

The **statutory body** of the company are two company executives. The powers of the company executives are stipulated in the Memorandum of Association.

PosAm, s. r. o.

Company Bodies

The **General Meeting** is the supreme body of the company. The General Meeting's scope of authority is defined by the Commercial Code and the Memorandum of Association.

The **statutory body** of the company are three company executives (one company executive until 28 January 2010). The powers of the company executives are stipulated in the Memorandum of Association.

Institute of Next Generation Networks v likvidácii

Company Bodies

The **General Meeting** is the supreme body of the association. It consists of all association members. The General Meeting competences are defined in the Articles of Association.

Statutory bodies (executives) are entitled to act on behalf of the association. The association has two executives. Their powers are stipulated in the Articles of Association.

The **Board of Trustees** is the controlling body of the association. It consists of three members.

The chairman of the association's powers are stipulated in the Articles of Association.

By a decision of the General Meeting, the association of legal entities Next Generation Networks was dissolved as of 28 February 2010 and went into liquidation. Simultaneously, the liquidator who is to perform activities resulting in the liquidation of the association was appointed.

T-Mobile Slovensko, a.s. (until 30 June 2010)

An inherent component of the system of governance was the company's organisational structure, which determined its basic arrangement, divided into:

- the company's bodies
- executive management

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

Company Bodies

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

The **Board of Directors** was the statutory body of the company. It was authorised to act on behalf of the company in all matters and represented the company vis-à-vis third parties. The Board of Directors governed the activity of the company and decided on all company matters, unless these were reserved by legal regulations or the Articles of Association for the exclusive competence of other company bodies, or unless delegated by the Board of Directors to other bodies.

The **Supervisory Board** was the controlling body of the company. It oversaw the performance of the Board of Directors' competences and the execution of the company's business operations. Members of the Supervisory Board met twice in the course of 2010: in February and April.

The **Executive Management Board** of T-Mobile Slovensko was responsible for the operation of the company, and comprised 8 executive directors, with a Chief Executive Officer designated by the Board of Directors of the company as their head. The Chief Executive Officer was responsible for the company's management and supervision over everyday activities of the company, as well as for the implementation of the annual business plan of the company (budget), its policies and direction of other company managers and employees. The Chief Executive Officer was accountable to the company's Board of Directors for the performance of his function. The Board of Directors also appointed the Chief Financial Officer of the company, who reported to the Chief Executive Officer and in cooperation with other managers participated in the elaboration of company business plans, strategies and policies. The Board of Directors specified the job descriptions, responsibilities and powers of other executive directors of the company.

Code of Conduct

In their work, employees of the Slovak Telekom Group follow the Code of Conduct, which is based on defined corporate values and determines the rules of conduct, both internally toward other employees and toward external partners. The Code of Conduct is common to all Deutsche Telekom Group companies, representing their common bond of vision, values and strategy with the parent company.

The Code of Conduct is considered a key document laying down the rules of behaviour. Observing the Code of Conduct is obligatory for all employees of Slovak Telekom Group companies, ensuring that the companies act as trustworthy partners for suppliers and customers. The companies get feedback on compliance with ethical business and employee behaviour by means of the Ethics Line mechanism. The line is available to all employees and external partners, to present their comments via telephone, mail or e-mail.

The underlying principles for decision-making for both managers and employees are morals, ethics, legal standards and corporate values. Increasing company value and a correct approach to customer needs and wishes is the priority for employees. Accepting the Code of Conduct is how employees express their loyalty towards the firm, and through behaviour in line with corporate values they strengthen the social responsibility on the part of themselves and their company

Quality Policy

Slovak Telekom places emphasis on increasing customer satisfaction by fulfilling the customers' needs. It is systematic and long-term work, results of which are verified by external audits carried out by TÜV NORD Czech.

In October, for the third time, the company received the Quality Management Certificate compliant with EN ISO 9001:2008 international standard requirements. This certificate, along with ISO/IEC 27001: 2005 Information Security Management System Certificate proves to customers the high quality of provided services and level of protection of entrusted information. Slovak Telekom acts responsibly not only towards its customers. The company acknowledges its corporate responsibility obligations by implementing the Environment Management System. For three years, it holds the certificate pursuant to EN ISO 14001:2004 standard. By observing the environment policy and objectives, the company joined other Deutsche Telekom Group members that pay extraordinary attention to all aspects of their business.

The scope of the certificate for integrated quality management, environment and information security systems includes "Development and Provision of Data Services, Desktop Services and LAN Services including Helpdesk, for Business Segment Clients in Business and State and Public Administration".

The implementation of new technologies, changes in products and optimization of existing processes are a well-proven path on which the company will continue, so that customers receive cutting-edge services in the highest possible quality. For four years, we have applied the Lean Six Sigma methodology with excellent results. For example, customer payment processing was improved, resulting in a decrease in customer complaints. Several dozens employees were trained to use Lean Six Sigma tools, whereby this programme initiated continuous company-wide improvement.

In 2011, the company intends to use the Six Sigma methodology to a greater extent and also to share its experience with other companies within the Deutsche Telekom Group.

Executive Management Board of Slovak Telekom

Ing. Miroslav Majoroš
Chairman of the Board of Directors and President
(until 30 June 2010)
Chairman of the Board of Directors and Chief Executive Officer
(as of 1 July 2010)

He completed 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 October 1993 being appointed to head the company. As of 1994 he worked as Sales Director of IBM Slovakia for industry sectors, 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 of Slovak Telekom since 2003. In 2005, he was elected Chairman of the Board of Directors of Slovak Telekom. He was a member of the Board of Directors of the subsidiary T-Mobile Slovensko since 2003, and from the summer of 2009 to 30 June 2010 he was the Chairman of the Board.
He is a member of the Board of Trustees of the IT Association of Slovakia, a member of the Presidium of National Union of Employers and a member of the programme council of the Business Alliance of Slovakia. He is a member of the Parliamentary Commission for Transport, Posts, Telecommunications and Information Society and of the Parliamentary Committee for Economy Policy.

Dipl. Ing. Rüdiger J. Schulz
Senior Executive Vice-President for Marketing, Sales and Technology/ COO (until 30 June 2010)
Chief Operating Officer Network and IT (as of 1 July 2010)

After his studies of 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 of his work in Hamburg he was responsible for technology platforms, and later became responsible for Marketing & Sales in the retail and business segment.
In 1996 he took over the position of Senior Executive Vice-President of Deutsche Telekom's Business Customers Branch Office in Hannover, and from 1999 he was also responsible for residential customers. Early in 2002 he managed marketing and sales of the T-Com brand in the northwest region of Germany for nearly 45,000 business clients. In 2005 he began working for T-Systems as Executive Vice-President of Business Customers and Large Enterprises in the north-east region of Germany and developed his experience in the IT area.
He joined Slovak Telekom in November 2006, taking over the position of Senior Executive Vice-President for Marketing, Sales and Technology/COO and is a member of the Executive Management Board being responsible for Marketing and Sales, product and service portfolio in the business, residential and wholesale segments and for production in general as well: that means the production platform and information technology.
Rüdiger J. Schulz is also a member of the Board of Directors of the Slovak – German Chamber of Commerce and Industry.

Szabolcs Gáborjáni-Szabó, CFA
Member of the Board of Directors and Senior Executive Vice-President for Finance (until 30 June 2010)
Member of the Board of Directors and Chief Finance Officer (as of 1 July 2010)

Mgr. Petra Berecová
Executive Vice-President for Human Resources (as at 30 June 2010)
Chief Human Resources Officer (as of 1 July 2010)

He studied Mathematics and Computer 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 degree CFA (Chartered Financial Analyst) at the CFA Institute. 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 Magyar Telekom (previously called Matáv) and its subsidiaries, holding, among others, the position of Deputy Manager of the Controlling Division (from 1999 to 2001) and Director of the Group Treasury Branch. In 2005 he joined Slovak Telekom as Senior Executive Vice-President for Finance/CFO and a member of the Boards of Directors of Slovak Telekom. He was also a member of the Board of Directors of T-Mobile Slovensko.

She studied at the Faculty of Philosophy at the Comenius University in Bratislava and subsequently at the Faculty of Law, specializing in international relations and law approximation. She worked in the automotive industry as Human Resources Director at Yazaki Slovakia She was with T-Mobile Slovensko since 2005, as a senior manager for compensation and employee benefits. She managed T-Mobile's Human Resources Division since 2007, and as a member of top management she participated in the Company's business decisions. As of 1 January 2010 she assumed the position of the Executive Vice-President for Human Resources/ CHRO of Slovak Telekom, while continuing her function as Human Resources Director of T-Mobile Slovensko. As of 1 July 2010 Petra Berecová was appointed as Chief Human Resources Officer of the integrated Slovak Telekom company.

Ing. Milan Vašina
Chief Executive Officer of T-Mobile Slovensko (until 30 June 2010)
Executive Director for Marketing, Sales and Customer Services (from 1 July 2010 to 31 December 2010)

After graduating in 1993 from the Faculty of Economy at the University of Agriculture in Brno he continued his studies through training programs at the London Business School and the prestigious Columbia University in New York.
In 1993 - 1997 he worked as Brand Manager and Group Manager at Benckiser and then held the post of Group Brand Manager at RJ Reynolds, for the Camel brand among others.
He joined RadioMobil (nowadays T-Mobile) in the Czech Republic in 1997, where he was the marketing communication manager in 1997 – 2000. His responsibilities included ATL, BTL, sponsorship and the development of the Paegas and TwistBrands. Later he was promoted to the post of residential segment marketing manager (2001-2002). During his years at RadioMobil he was also responsible for rebranding the company into T-Mobile.
He joined T-Mobile Slovensko in 2002 as Marketing Director; he managed segment management, pricing, products and services, mobile content, marketing communication, CRM, retention and other areas. In that position he was also responsible for the entire rebranding of EuroTel to T-Mobile, which took place in 2005.
Milan Vašina assumed the position of T-Mobile's CEO as of 1 March 2007. He was also a member of the Executive Management Board of Slovak Telekom.

From 1 July to 31 December 2010 he served as the Executive Director for Marketing, Sales and Customer Services of the integrated company. As of 1 January 2011 he has assumed the position of Managing Director of T-Mobile Czech Republic, a.s., thus he continues his work within the Deutsche Telekom Group.

Ing. Dušan Švalek
Chief Marketing Officer
(as of 1 January 2011)

His career began with the positions of product and senior brand manager at the companies Benckiser and Johnson&Johnson, respectively. He worked in the Boston Consulting Group for six years. He joined T-Mobile Slovensko in 2004 as Director of the Customer Service Division and since 2007 he was Chief Marketing Officer. From 1 July to 31 December 2010 he held the post of Marketing Director at Slovak Telekom.
As of 1 January 2011, Dušan Švalek is responsible for marketing strategy for individual segments and for product management and the development of voice and data services in line with Deutsche Telekom's international strategy.

Ing. Igor Matejov
Chief Sales and Customer Service Officer (as of 1 January 2011)

His career started in the Accenture consulting company, where he worked as a manager for financial institutions and insurance industry. As a Member of the Board of Directors of Consumer Finance Holding, a.s., a VÚB subsidiary, he was responsible for operations, IT and key company projects. In 2007 he joined T-Mobile Slovensko, where he managed Customer Service Division as the Executive Director and from February 2009 he worked as the Chief Sales Officer. From 1 July to 31 December 2010 he held the position of Sales Director at Slovak Telekom.

As of 1 January 2011, Igor Matejov manages two areas – in his new position, he is responsible for all sales channels of the company and for customer care and services.

Ing. Pavol Kukura, PhD.
Executive Vice-President for Strategy and Regulatory Affairs/CSRO (until 30 June 2010)

He graduated in 1983 from the Electro-Technical Faculty at the Slovak University of Technology. Until 1993 he worked at the Department of Telecommunications of the Faculty of Electronics and Informatics at the Slovak University of Technology. He gained his PhD in the field of digital telecommunications networks in 1993. From 1994 till 1996 he was the technical director of AT&T in Slovakia; in years 1996 – 2000 he was the technical and later business director of Lucent Technologies Slovensko. He held the position of Executive Vice-President for Strategy and Regulatory Affairs at Slovak Telekom from October 2003. In 2006 he was also the Chairman of the General Meeting of European Telecommunications Network Operators' Association.

Board of Directors of Slovak Telekom

Ing. Miroslav Majoroš
Chairman

Ing. Martin Mác
Vice-Chairman (since 2 December 2010)

Szabolcs Gáborjáni-Szabó, CFA
Member

Albert Pott
Member (since 27 April 2010)

Dr. Ralph Rentschler
Member

Ing. Róbert Sándor
Member (since 2 December 2010)

Ing. Miloš Šujanský, M.B.A.
Member (since 17 June 2010)

Ďalší členovia predstavenstva v priebehu roka 2010:

- Ing. Jaroslav Volf – Vice-Chairman (until 17 June 2010)
- Ing. Juraj Beňo – Vice-Chairman (from 17 June 2010 to 2 December 2010)
- Dr. Lutz Schade – Member (until 27 April 2010)
- Ing. Ivan Doletina – Member (until 17 June 2010)
- Ing. Vladimír Zeman – Member (until 17 June 2010)
- prof. Ing. Liberios Vokorokos, PhD. – Member (from 17 June 2010 to 2 December 2010)

Supervisory Board of Slovak Telekom

- **Andreas Hesse** – Chairman (since 27 April 2010)
- **Ing. Katarína Lešková** – Vice-Chairman (since 2 December 2010)
- **Cornelia Elisabeth Sonntag** – Member (since 27 April 2010)
- **Dr. Hans-Peter Schultz** – Member (since 27 April 2010)
- **Ing. Miroslav Galamboš** – Member (since 2 December 2010)
- **Ing. Jan Vozár** – Member (since 2 December 2010)
- **Ing. Július Maličký** – Member
- **Milan Brlej** – Member
- **Ing. Ján Hláčik** – Member

Other Members of the Supervisory Board in 2010:

- **Wolfgang Hauptmann** – Chairman (until 27 April 2010)
- **Pavol Dlhoš** – Vice-Chairman (until 17 June 2010)
- **Ing. Slávka Jánošíková** – Vice-Chairman (from 17 June 2010 to 2 December 2010)
- **Dr. Albert Matheis** – Member (until 27 April 2010)
- **Norbert Schmidt** – Member (until 27 April 2010)
- **Ing. Jiřina Perényiová** – Member (until 17 June 2010)
- **Ing. Anton Štefko** – Member (until 17 June 2010)
- **Ing. Vincent Straka** – Member (from 17 June 2010 to 2 December 2010)
- **Ing. Jaroslav Volf** – Member (from 17 June 2010 to 2 December 2010)

II. Telecommunications Market in Slovakia

More Competition, Higher Quality of Services

Legislative Conditions

The legislative process of elaboration of a new act on electronic communications started in 2010 based on reviewed directives constituting the so-called Regulatory Framework for electronic communications. The new legislation should introduce more effective protection of consumer rights and privacy protection, as well as reinforce the regulation on an european level. The new Act on Electronic Communications shall be effective as of 1 July 2011.

On 2 June 2010, the Constitutional Court resolved that the provision of Section 13 Subsection 2 j) of Act No. 610/2003 Coll. on Electronic Communications that regulates the obligation of undertakings to provide facilities for the tapping and recording of traffic for authorized state authorities was not in line with Article 1 of the Protocol to the European Convention on Human Rights and stated that with respect to the costs and the nature of the obligation, the scope of the imposed obligation exceeded what would be correct to ask from a private telephone operator. The conclusion of Ruling of the Constitutional Court PL. ÚS 23/06-61 shall be manifested in a change to the overall concept of provision of cooperation to authorized state bodies in the new Act on Electronic Communications.

Late in 2010, the Telecommunications Office of the Slovak Republic amended the procedural regulation that specified the details of provision of public payphones and services to health impaired users and issued a new Measure No. O-20/2010, by which there was a reduction in the requisite number of public payphones by more than one third.

Market Regulation

In 2010, the trend towards consolidation and mergers of alternative operators on the market, providers of public fixed telephone networks and services continued; however, new operators also expressed their interest in interconnections. Late in 2010, 9 alternative operators remained interconnected with Slovak Telekom. Under the influence of Europe-wide regulation trends, the national regulatory authority maintains a close watch on fixed interconnection pricing.

In January 2010, for the first time, the Telecommunications Office of the Slovak Republic (TO SR) duly regulated mobile interconnection pricing (in 2009, prices were regulated only via preliminary rulings), using the EU LRIC cost benchmarking method. By acknowledging the price asymmetry to the benefit of the

Telefónica O2 company (thus enabling it to claim fees higher than those of other operators on the market), the Office decided to provide temporary protection to this company until it has achieved the required efficiency and stabilized its position on the retail market.

No substantial changes to number portability were made during the year 2010. The review of the directives constituting the Regulatory Framework for electronic communications approved at the EU level shall only affect the number portability conditions in the following period.

A European Commission inspection visited Slovak Telekom on 13 January 2009 to investigate the alleged abuse of the dominant position in the broadband internet access market. The EC started proceedings on 8 April 2009, emphasizing that commencing such procedure did not mean the Commission had adopted a final conclusion on assessing the alleged abuse. Slovak Telekom continued its open and intensive discussion with the European Commission also throughout 2010.

In March 2009, GTS Slovakia became the first electronic communication services provider to sign a contract on unbundling access to local loops. The first points of collocation were constructed towards the year-end. As every year since the Reference Unbundling Offer was published, prices again decreased in 2010.

At the European Commission level, the draft recommendation on regulating access to such new infrastructure types was approved in 2010. Slovak Telekom actively collaborated with the TO SR in analysing the relevant markets of wholesale broadband access and wholesale physical access. The Company's endeavour is to achieve objective and appropriate consideration of the market environment, dynamically changing mostly owing to implementation of new access infrastructures and next generation technologies in relevant markets, and also due to the number of other companies operating on the relevant markets.

According to the TO SR Decision, Slovak Telekom has been the universal service provider as of April 2006 and has fulfilled its full universal service obligations. Details regarding the universal service provision are governed or are to be provided for in the procedural regulations of the TO SR and Ministry of Transport, Construction and Regional Development of the SR. Insufficient or completely absent procedural regulations can be viewed as one of the shortcomings resulting in the legal uncertainty of the universal service provider; the case is similar regarding excessive procrastination in proceedings on determining reimbursement of the net costs of the universal service in years 2005-2006 and 2007-2008. With respect to further assessment of net costs incurred in the provision of the universal service, the filing of a protest by the prosecutor was important; the chairman of the Telecommunications Office accommodated the protest and stated that Slovak Telekom was entitled to the reimbursement of costs of provision of the whole scope of the universal service, not only for services to health impaired users and for the provision of public payphones. Therefore, with respect to further proceedings, the assessment whether the provision of the universal service constituted an unreasonable burden for ST shall be of key importance. Late in 2010, both administrative proceedings were considered in the first instance proceedings.

In the area of competition protection in 2010, activities of Slovak Telekom were not subject to any investigation or intervention by the national competition regulator. In 2010, Slovak Telekom continued defending its interests in court proceedings with respect to the investigation into the legality of decisions made by the national regulatory authority in the past. The Regional Court of Bratislava annulled the decision of the regulatory authority on the alleged abuse of the dominant position due to the failure to provide access to local loops, for which a penalty of EUR 29.38 million was imposed on the company, and on the alleged abuse of the dominant position by squeezing price margins, for which the penalty of EUR 2.42 million was imposed on the company. However, the judgements are not yet final.

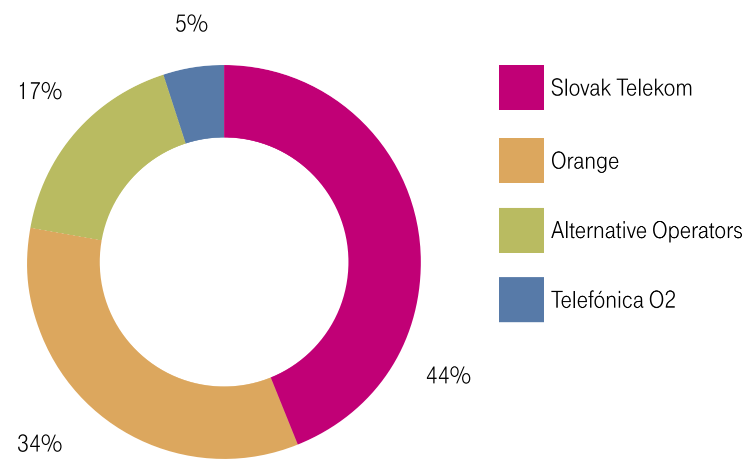
Telecommunications Market Development

The main event in 2010 was the integration of Slovak Telekom and T-Mobile Slovensko. The most important events of 2010 also included major investments of fixed operators in extending optical and wireless infrastructure for high-speed internet connection and digital television services, as well as acquisitions of local alternative operators. An ongoing market consolidation, which will strengthen the position of players operating nationally with a comprehensive offer of telecommunications services, can be expected. The determining trend in mobile communications in 2010 was an increase in the number of users of mobile internet services and continuous growth of the proportion of invoiced services customers as part of the overall customer base, increasing accessibility and enhanced quality of 3G data services thanks to operators' investments in network infrastructure. The presence of the third mobile player, Telefónica O2, intensified competition, as manifested in the general price decrease of mobile voice and data services.

Negative effects of the economic crisis were also evident on the Slovak telecommunications market in 2010. The most significant decrease was registered in mobile and fixed voice services segment and partially also in fixed data services. Despite the crisis other market segments such as internet and mobile data services showed growth. The slow-down compared to the preceding period was also a result of rising market saturation and intensive price competition. Telecommunications operators further extended their product portfolios, invested in the development of their infrastructure and enhanced the quality of customer care.

The total estimated revenue from sales in the telecommunications market in the Slovak Republic in 2010 reached EUR 2.17 billion, with a year-on-year decrease of approximately –3.5%. Compared to the preceding year, the internet services segment achieved the highest increase in revenue in absolute numbers. The Slovak Telekom Group confirmed its dominant position with a market share of 44 % of non-consolidated revenue in 2010.

Market Share of Individual Telecommunications Operators in 2010 (%)



Source: Slovak Telekom, a. s., Orange Slovensko, a. s., Telefónica O2, a. s., internal professional estimate by Slovak Telekom, a. s. with respect to alternative operators.

Fixed Services Market

The fixed network voice services market showed a gradual decrease in revenue as a result of substitution by mobile voice services and voice services based on IP or broadband internet. As the biggest provider of fixed network services, Slovak Telekom aims to stabilise revenue thanks to its perspective of the best possible customer-oriented service and voice services provision in connection with other data products.

Slovak Telekom, providing its services under the brand T-Com, registered in total 1.06 million of voice accesses (including Voice over Internet) at the end of the last year. The decrease in the number of customers of fixed voice services came primarily in the segment of traditional voice services, while internet telephony achieved a slight growth. In the business customer segment, the increasing demand continued for data and managed services within comprehensive solutions based on virtual private IP (Internet Protocol) networks.

Dynamic growth in the broadband internet connection services market also continued in 2010, with total estimated customers reaching almost 875,000 and year-on-year growth of 15.7 %. The estimated penetration of broadband connections in households thus increased in 2010 to approximately 43%. The greatest dynamics occurred in connections based on DSL technology and optical connections. In 2010, operators continued investing into expanding coverage and improving access infrastructure quality, as indicated by the increasing accessibility of services and higher access speed for end-customers. Continuing acquisitions of local internet providers by players operating nationally in 2010 brought a slight consolidation of the internet market, and resulted in standardisation of products and higher-quality customer services.
In the broadband connection market, Slovak Telekom promotes services based on modern optical fibre technology. The Company has started gradual and controlled migration of customers to this technology, as seen in the continuously improving accessibility of services based on this technology, accessible to 338,000 households at the end of 2010.

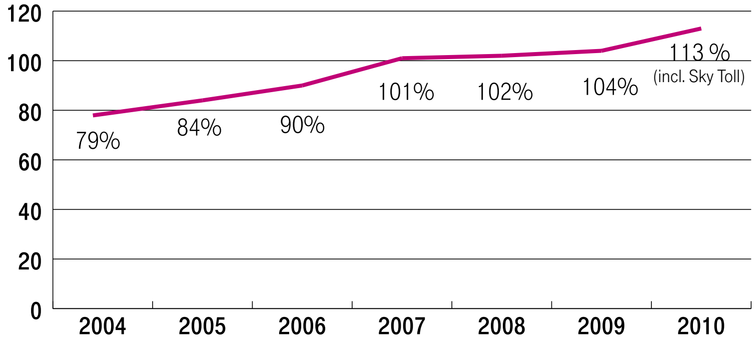
Mobile Services Market

The estimated number of active mobile communication service customers reached approx. 6.16 million (including Sky Toll Sim) at the end of 2010, indicating a penetration of mobile services at the level of 113 %. The increase in the number of active customers compared to 2009 was primarily supported by activities of the third mobile operator Telefonica O2 and the growing number of broadband mobile internet customers.

Slovak Telekom, offering mobile network services under the T-Mobile brand, achieved the estimated market share of 37 % with respect to revenue at the end of 2010. The estimated total volume of mobile market revenue in 2010 was almost EUR 1.37 billion, indicating a year-on-year decrease of approximately 5.3 % compared to 2009. The negative development was mainly caused by a slow-down of economic growth, and customers' efforts to reduce consumption and optimise expenditure on mobile services in all market segments. Growing competition in the market resulted in a general market price decrease and a more attractive offering of voice and data packages to customers. A reduction of interconnection fees charged among operators on a wholesale basis, and a decrease in revenue from roaming as a result of price regulation and less voice traffic were other causes.

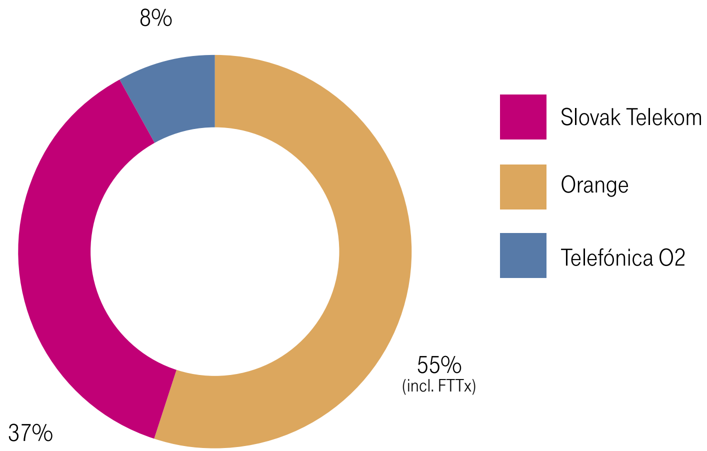
Continuing customer migration to the invoiced services segment, higher intensity of voice service usage, and growing penetration of mobile data services were, in contrast, the main areas of revenue growth in the mobile market. In 2010, Slovak Telekom Group achieved total non-consolidated revenue of EUR 499 million in the mobile segment, with a year-on-year decrease of 10 %. T-Mobile's estimated market share of the mobile market in terms of total revenue in 2010 was 37%.

Trend in Penetration of Mobile Services in 2004 – 2010 (%)



Source: Slovak Telekom

Specification of Mobile Market Revenues in 2010 (%)



Source: Slovak Telekom, a. s., Orange Slovensko, a. s., Telefónica O2, a. s.

Digital and Interactive Content Services

In digital and interactive content services, Slovak Telekom operates in the market of both paid television and, via the Zoznam and Zoznam Mobile subsidiaries, online internet services. In addition to existing (traditional and portal) services, one key characteristic feature of Zoznam and Zoznam Mobile operations in online services was the introduction of new services strongly orientated to mobile internet. Free.sk (a content-sharing platform) has been a leader in user-generated content among local competitors in the Slovak online market, not taking into account the international online giants. At the turn of 2010 and 2011, cooperation within the Slovak Telekom Group enabled customers accessing the content of portals Free.sk and Topky.sk also on their television screens via the Magio and Magio Sat digital television service.

In the paid television market, Slovak Telekom continued developing the Magio service; besides expanding its customer base and adding new functionalities, Magio became more interactive, and has maintained its profile as the leading digital entertainment and interactive content service of the future. Early in 2010, the Company also managed to successfully launch commercial digital satellite television broadcasting based on DVB-S2 technology under the name Magio Sat. At the end of 2010, the digital television from Slovak Telekom had almost 125,000 customers.

Data and Information-Communication Services

Once again, Slovak Telekom retained its position as a leader on the market of data services for business clients in 2010. On the growing market of ICT services, in which IT and data communication services are converging as they are in the home entertainment market, the Company has concentrated on providing comprehensive ICT services with added value for big corporations. The majority stake in PosAm has enabled implementing Slovak Telekom's long-term strategy to provide comprehensive communication solutions to business customers.

Slovak Telekom Group Strategy

Slovak Telekom's strategy is linked to the global strategy of its parent company Deutsche Telekom, whose vision is to be a global leader connecting people in their lives and work. A long term ambition of Slovak Telekom is to be the No. 1 player on the telecommunications and IT services market in Slovakia. The common factor is the mobilization of personal, social and business contacts through fixed and mobile networks.

In the last three years, the Slovak Telekom Group enhanced its service portfolio by expanding into new and growing markets (online, TV and IT services) in order to diversify the sources of revenue from areas of decline to growth areas. Therefore, Slovak Telekom's mid-term strategy for the following 4-5 years is based on four pillars, the objective of which is to retain the value of basic voice services so that growth in the Company's revenue in broadband, TV and IT services can continue.

The first pillar is based on increasing the proportion of subscribed mobile service customers with the lowest possible decrease in the invoiced service value and on acquiring pre-paid customers also through extensive sales and distribution networks of other companies (e.g. hypermarkets). The combination of T-Mobile and T-Com brands under the "heading" of one company – Slovak Telekom opened up the possibility to enjoy the benefits of combined fixed and mobile product packages. The Company endeavours to further extend the scope and increase the number of utilized mobile services per customer, for example via cross-selling, such as the sale of mobile voice services to fixed voice service or internet service customers.

In the fixed voice segment, Slovak Telekom will retain its focus on fostering customer loyalty by active customer relations management and supporting the customers' positive experience with the Rodinná linka (Family Line) plans. Extension of the portfolio with converged fixed-mobile voice services, traffic stimulation within the ST network and gradual migration to voice services via broadband will require achieving sufficient broadband access coverage of households.

The area of broadband internet and paid television access is included in the second pillar. The objective for 2011 is to improve the position in the mobile broadband segment, which the Company intends to achieve primarily through extending the 3G network and increasing its speed, optimizing the product portfolio, including value-added services, as well as by efficiently using an integrated sales approach to customers. Concerning fixed broadband, the Company will focus on maximizing optical network use through a regional customer acquisition model and cross-selling to mobile services customers.

The Company intends to exploit the potential of rural areas outside the existing fixed metallic network coverage by offering combined, cost-efficient mobile and wireless solutions.

The trend from 2010 of enhancing the IPTV portfolio with value-added features will continue in 2011. However, emphasis will be laid on satellite television, including the extended channel offer (with HD and premium packages) and interactive internet and home entertainment features. The Company's goal is to increase the number of customers that use TV together with other services through targeted cross-selling.

The third pillar of the Company's strategy for the following years is based on the growth in the provided IT services and new services "beyond the limits of traditional telecommunications services". The areas of planned revenue increase in IT services comprise cooperation with IT partners and provision of the Company's own IT solutions related to telecommunications services. Areas of IT services development also include synergies with the subsidiary PosAm in managed IT solutions, customer applications development and outsourcing.

The objective of the last, fourth pillar is to improve the Company's performance with integration synergies within the Slovak Telekom Group. Emphasis will be placed on reducing operating expenses and a more efficient use of capital investments in information technologies and fixed and mobile networks. Increased cost efficiency in the field of technologies will enable a gradual lessening of infrastructure complexity, system consolidation and retirement of outdated or unsupported platforms.

III. Report of the Company’s Management

Products and Services

The Slovak Telekom Group, a provider of comprehensive telecommunications services, markets under the brand T-Com its fixed network services, internet connectivity, digital television services provided via fixed network as well as satellite technology, data services, sale of terminal equipment and call centre services. The T-Mobile brand offers voice and data communications services and internet content services are provided under Zoznam and Zoznam Mobile.

In 2010, the Slovak Telekom Group retained its leading position in the telecommunications market, despite the fact that the market was characterised by a gradual decrease of customer demand for the so-called fixed voice, high saturation in the mobile voice services market and strong competitive pressures to reduceprices. The Group however kept a very high level of revenues owing to fixed and mobile broadband internet services, digital television Magio and internet content services. In the field of mobile communications, the share of postpaid services kept increasing in the overall customer base while non-voice services revenue share also rose.

In the course of 2010, the Company reported a steep growth in the field of customers connected to the optical network, with their number more than doubling in a single year. The satellite digital television Magio Sat launch contributed to strengthening the Company’s position among the largest digital television operators.

On the Way to Becoming an ICT Operator

The year 2010 was for Slovak Telekom significant also with a view to the ongoing transformation into a comprehensive information-communication service provider.
From this perspective, the key step was the acquisition of PosAm, a leading provider of application solutions, services and infrastructure tools for corporate clients, by Slovak Telekom and tapping on synergy effects related to the transaction.

The start of construction on the cutting-edge data centre in Bratislava marked another key milestone. The Račianska street will thus gradually see the building of a super modern five-storey building, with the total space of 1,200 sq. metres for the housing of ICT technologies, in all aspects designed to meet the most stringent technological, security and environmental standards. The construction of the data centre meeting the GREEN IT principles is financially more demanding but its operation at the same time generates long-term savings for both the operator and customers using its services. The opening of the new datacentre is scheduled for 2011.

The Bratislava data centre project stresses the long-term strategy of Slovak Telekom to provide a comprehensive portfolio of added value ICT services. The new data centre will create room for services scaleable from a single server housing through private cloud computing to a full solution inclusive of Business continuity plan and Disaster recovery plan developed for the customer. Along with the possibility to order data connectivity from Slovak Telekom, the full array of solutions on offer has the ambition to appeal to not only large corporations but also small and medium enterprises for which data centre outsourcing is an ideal opportunity to resolve their information-communication needs.

Customer Care Services

The provision of customer care services at Slovak Telekom via call centres is the pivotal activity of the Customer Care Division. Besides telephone contact, the Division also caters for written and email communication with the customer. The function also includes the BackOffice unit for running in-system administration services and also other activities concerning support to sales and customer care provided at call centres and in the sales network.

Call centres operate various toll-free numbers providing customers with all the required information about the Company's products and services. In relation to the integration of Slovak Telekom and T-Mobile Slovensko as of 1 July 2010, the second half of 2010 marked a merger of customer helplines providing assistance regarding fixed and mobile products, in particular the numbers 0800 123 456 (fixed products support) and 12345 (mobile products support). At the same time, the portfolio of services provided at call centres was gradually expanded to ensure that customers get the best possible access to information about the comprehensive product and service offers of the integrated company Slovak Telekom. At the same time, the process of harmonisation of the so-called fault reporting numbers, where customers receive technical assistance regarding both mobile and fixed network-based internet, as well as voice products and last but not least also the Magio service, was launched.

The operation of directory/information and assistance numbers continued to mediate information for customers not only concerning directories of all Slovak telecommunications operators but also information from the fields of culture, transport, tourism etc.

Besides customer care, call centres also focus on the sale of products from T-Com and T-Mobile while these telephone-based sales activities make up a significant part of the overall volume of sales of the Company's products and services.

Wholesale services: Supporting the Development of Telecommunications Services

The integration of Slovak Telekom and T-Mobile Slovensko in 2010 significantly invigorated the provision of wholesale services by our company.

In sales, immediate integration of wholesale activities followed, both for domestic and international services. The integration and application of synergy initiatives succeeded in strengthening and confirming our status of the most comprehensive provider of wholesale telecommunications services in the Slovak market. Both basic pillars of wholesale services – the sale and leasing of data services and infrastructure and the provision of domestic and international voice services contributed to the financial results.

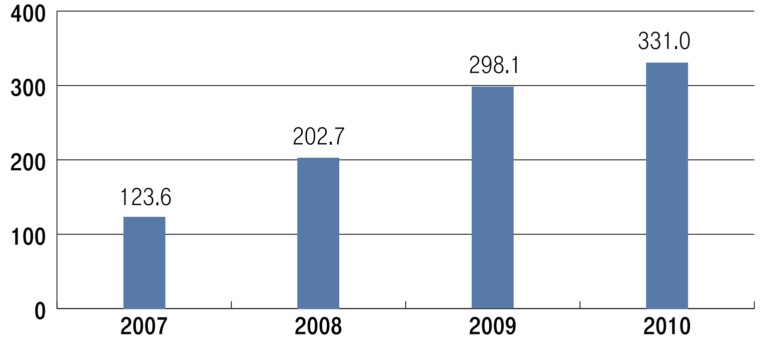
Data Services
Growth in wholesale data services was recorded in the Carrier Backbone service established on leased lines technology, in the ISP Connect service providing internet connectivity and significant growth in revenues was also achieved in the service based on Ethernet technology, where revenues from the Carrier Ethernet service increased by 24%.
An important milestone in the year 2010 was the gradual construction of collocation rooms for the ULL (Unbundling of Local Loops) service. This service enables our partners to use the existing lines of Slovak Telekom on a wholesale basis,

for provision of their own broadband and voice services. As for this segment, the company continues its activities in the sales of comprehensive broadband services. On their basis, partners can provide broadband services to their end users also in regions where they do not have their own technology.
As regards international data services, we extended our activities with providing transmission capacity in the Ukraine, where we utilized our strong position thanks to the established technology node right in Kiev. In 2010, we added the possibility to interconnect IP networks based on MPLS protocol to the portfolio of international services, and subsequently we implemented such a solution with our key partners. The solution enabled our company and our partners to provide modern data services and assisted in guaranteeing the quality parameters for individual IP services in the whole international scale to the end user level.

Voice services
In domestic voice services, activities in 2010 were mostly associated with the merger of Slovak Telekom and T-Mobile Slovensko, where the most significant changes were implemented in processes and supporting systems, such as the implementation of the joint system designed for the pricing of interconnected calls, optimization of the provision of retail voice services and the related changes in wholesale interconnection contracts. In 2010, interconnection with a new wholesale partner was arranged; the existing players focused on activities consolidating the interconnection contracts and the number of interconnected networks, which strengthened their positions in the market.

As for international business, the area most affected by the integration was the existing call interconnections with international operators. The consolidation of all international connectivity via the common platform established on the basis of the NGN technology offered the company new possibilities for cost-effective measures and further development of transit business. We managed to decrease the year-on-year cost per unit by 15% for outgoing international voice traffic. In the provision of transit business for international voice traffic, we registered another increase in the transit minute volume by 11% compared to 2009.

INT–ST–INT (mil. of min.)
2007 – 2010



Source: Slovak Telekom

New Technologies Enhance Service Quality

Also in 2011, Slovak Telekom will continue to deploy new technologies, services and products into its portfolio. The Company strives to promptly react to global trends in telecommunications while constantly focusing on the increasing of customer satisfaction.

Slovak Telekom strengthened its position among the largest providers of digital television in 2010. The launch of the new product Magio Sat in mid-January greatly contributed to this achievement. Slovak Telekom at the same time added more than twenty new channels to that already on offer from its Magio television service based on IP TV. Besides new TV channels, the Magio television gained new functionalities bringing new experiences related to the usage of the service and connecting to internet content via the television. At the end of 2010, Magio was supplemented with the option to play video from the Free.sk portal directly on the TV screen and in early 2011, Magio started offering news from Topky.

sk and Sportky.sk. In this way, the long-term vision of the Company to interlink mobile, computer and television screens is being fulfilled.

In the area of fixed voice services, a stronger impact of IP-based voice services can be anticipated. While the existing calling plans available with the fixed line enjoyed sufficiently extensive popularity and customers fully grasped the universal benefits related to calling any destination from a fixed line, the services based on transmission of voice over the internet are yet to witness their massive development expected in the coming years. Slovak Telekom will strive to offer its Smart service based on VoIP mainly to corporate clientele with more extensive or very specific requirements compared to the Benefit package.

After the integration, Slovak Telekom provided broadband internet and multimedia services based on four technologies:

- FLASH-OFDM, with coverage on a level of almost 80 percent and gradually expanding network capacities
- 3G with HSDPA and HSUPA layers covering 42 percent of the population
- metallic DSL network with the ADSL 2+ layers offering transmission rates up to 12 Mbps
- optical network covering 338,000 inhabitants in 22 cities

Fixed Network Products and Services

Digital Television: Standing for Growth

The beginning of 2010 was marked by the launch of a satellite variant of the digital TV Magio, the successful start of which was expected in advance due to almost 10,000 preliminary purchase orders for the new service. More than that, Magio Sat exceeded all primary expectations and over less than one month since its launch, the product gained more than 40,000 customers. The decision to provide interactive digital television not only over the fixed network (metallic and optical) but also via the most advanced satellite technology DVB-S2 proved to be correct. The extensive project was prepared in cooperation with Magyar Telekom and serves as an outstanding example of synergies within the Deutsche Telekom Group.

Magio TV, the flagship of the fixed network (both optical and metallic) achieved similarly outstanding results and this is why the year 2010 can be said to constitute a breakthrough year from the perspective of the Slovak Telekom's multimedia business. The number of all customers of the digital television Magio service exceeded the number 120,000 and the service was enhanced with numerous innovations and functionalities. Thanks to continuous improvements of the interface and functions, Magio TV is among market leaders, basically becoming a synonym of advanced digital TV in Slovakia.
One of the most significant steps was an extension of the IPTV channel offering in several stages, which introduced the viewers to 25 new TV channels including those broadcast in high definition (HD).

Another important change was the changeover to a higher version of the IPTV platform Microsoft Mediaroom 1.6 supporting development and introduction of new functionalities. The launch of the new software also resulted in increased speed and stability of the entire user interface; also improved were audio settings and manipulation with recordings.
Following the successful positioning of Magio Sat on the market, the summer of 2010 was the right time to update the firmware and the autumn brought about a new type of set-top box without a hard disk, which was successfully developed, tested and marketed; along with higher performance, smaller size and smart design, the new device also significantly cut the installation time.

The year end saw further extension of the interactive services of Magio digital television – customers can now watch streamed video from the popular videoserver Free.sk right on their TV screens. Accessing the video content of Free.sk, which is operated by Slovak Telekom's daughter company Zoznam s.r.o., via the TV remote control is the key step in the Company's efforts to promote user content sharing (pictures and video) regardless of the technology employed.

Internet: Unrestricted Connectivity Now Also for Less Demanding Users

The Slovak Telekom's fixed internet service was in 2010 among the most popular on the Slovak market. Also thanks to this achievement, the total number of all retail broadband accesses exceeded 436,000. More than 45,000 new households ordered and started using Magio internet in 2010 alone.

The huge demand of Slovak households for Magio internet can be attributed to the increasing quality of the metallic infrastructure, the quality of connectivity and favourable prices. Besides reliable information search function, the high-speed Magio internet also offers full convenience of use with respect to interactive web sites gaining higher popularity and internet-based sharing of music and video or legal downloading of internet content.

In 2010, Slovak Telekom introduced new Magio internet price plans designed for less demanding customers who transmit small data volumes and wish to use the internet for a low price throughout the entire contractually committed period. In the first half of the year, unlimited price plans Turbo Mini, Turbo Mini Solo and Optik Mini for seniors above 55 years of age including parents with small children, were introduced to the market. These price plans included 2 GB prepaid data. After using up the allowance, customers experienced only reduced speed, and did not need to pay for excess data transmitted as opposed to the Turbo 1 and Optik 1 price plans. Based on the success of this price plan product family, Slovak Telekom decided to replace them in the last quarter of 2010 with three plans Turbo 2 mini, Turbo 2 mini Solo and Optik 2 mini, which were aimed at all potential customers and contained 1GB prepaid data with subsequent speed restrictions.

In the course of 2010, Slovak Telekom expanded the coverage of the state-of-the-art optical network, by adding some 23,000 households, thus increasing the total to 338,000 households in 22 cities. The newly covered locations were in Banská Bystrica, Komárno, Martin, Partizánske and Pezinok. Besides these cities, the optical network is available also in Bratislava, Dubnica nad Váhom, Galanta, Košice, Lučenec, Malacky, Michalovce, Nitra, Piešťany, Poprad, Prešov, Senica, Stupava, Trenčín, Zvolen, Žiar nad Hronom and Žilina. Optical network–based services of T-Com were available in selected property development projects in further cities.

The increasing volume of multimedia content on internet pages and portals impacted on customer needs. Their ever-increasing requirements concerning the internet connection speed were addressed by Slovak Telekom in the past year by increasing the transmission rates of the metallic network–based price plans Magio internet Turbo. The most significant change concerned the increase of speed of Turbo 3 to 6 Mbps for data downloads for a one-off fee. In the past year, the Company extended the option of sending data at a higher speed for a one-off fee also to the price plans Turbo 1 and Turbo 2. All Turbo and Turbo Solo customers could thus improve their upload to the speed of up to 512 kbps. Magio internet Optik 4 remained the highest speed price plan within the Slovak Telekom's portfolio offering speeds of up to 80 Mbps at an attractive price.

Security of a computer connected to the internet is as important as the connection speed. In order to offer its customers a recognised security solution for an attractive price, Slovak Telekom offered the service Magio Internet Security, which is provided in cooperation with ESET. The benefit related to the service lies in monthly payments as opposed to an annual basis. The customer thus pays only for months in which the service is to be really used.

Voice Services: a New Price Plan for Demanding Clients and Growth of Optics-Based Voice

Also in 2010, the Company put emphasis on providing a flexible portfolio of voice services meeting the stringent communication requirements of customers. Rodinná pevná linka (Family fixed line) underwent a transformation to a universal tool for placing calls to all networks and its usage increased also in relation to calls to Slovak mobile networks.

The entire year was marked with a continuing increase in demand for optional calling plans. At the end of 2010, their share was by 2 percent points higher than at the end of 2009 thus reaching 95 % of all price plans for residential customers. At the same time, customers' interest in calling plans with unrestricted free minute allowance grew including the UNI calling plan product line which offers also free minutes to mobile networks. In the last year, most new customers subscribed to the calling plan Doma Extra offering toll-free calls around the clock within the fixed network in the Slovak Republic. Also in 2010, the share of customers with UNI calling plans grew reaching approximately 33 %, which was 1 percent point above the 2009 year-end result. This achievement was attributed also to the launch of the new calling plan Doma UNI 120, which attracted thousands of customers in less than a year. This calling plan offers 120 minutes to all Slovak networks and unrestricted calls within fixed networks during off-peak times.

Voice services were an important component also of the optical FTTx-based offers. Customers could choose from three calling plans Volania Optik Start, Klasik and Komplet. Owing to three variants and the system of packages, the customer could create their own calling plan fully matching the customer's communications needs. A significant growth in the number of customers connected via the optical network was reflected also in the increasing number of customers with Volania Optik. The respective year-over-year increase facilitated by promotional package offerings stood at over 32%. Optik calls were offered together with Magio internet or digital TV Magio services.

As of 31 December 2010, the Company operated 1.061 million fixed lines. A number of attractive products contributed to the stabilisation in the number of fixed lines when compared to other incumbent operators in the CEE region. The Company retained its market position also despite increased competitive pressure on the fixed line voice market in early 2010.

The end of 2010 brought about also changes in the provision of public payphone services. The new measure of the Telecommunications Office of the Slovak Republic significantly decreased the minimum number of public payphones in Slovakia's cities and countryside. In the course of the year, the number of public payphones dropped by almost 4 % to 6,702 devices.

Fixed Network Products and Services for SMEs, SOHOs and Solutions for Large Accounts

Products and comprehensive solutions provided by the Company to Small Office/Home Office (SOHO) entrepreneurs, Small end Medium Enterprises (SME) and large corporations are designed to best meet the communication needs of customers. In the area of voice services, the emphasis is mainly put on optional calling plans offering universal utilisation of free minutes to mobile networks as well as to foreign destinations and free calls within the fixed network. Towards the end of 2010, the share of optional calling plans in this segment rose to 81 %.

In the past year, the most popular calling plans in the segment of traditional voice services were the Biznis Uni product line. More than half new customers ordered calling plans Biznis Uni 50 and Biznis Uni 150, which are designed for active customers calling all networks. The calling plans Biznis Uni offer free minutes to all networks including mobile and cover 38 countries. Customers showed interest also in calling plans with free calls such as Biznis Mesto and Biznis Slovensko.

For communication with their clients, more and more companies and organisations use the Intelligent Network services, which include e.g. toll-free 0800 line and shared-cost number 0850. In the case of a toll-free number, the costs of calls made are borne by the company ordering the service. This is a strong marketing tool for providing customers with information on a company's products, for example. With the shared-cost number, call costs are shared between the customer and the company ordering the service. The service is used by fi rms interested in effective communication with customers that also wish to eliminate malicious and unwanted calls.

For start-ups, SMEs and SOHOs, T-Com's portfolio offers a comprehensive communication solution named Benefit, a calling plan with a practical combination of voice services, high-speed DSL internet connection and a smart PBX functionality. Customers can benefit from favourable qualities of the price plan such as free unrestricted calls to fixed networks within the country and also abroad as well as cheaper calls to mobile networks. In 2010, T-Com marketed the calling plan in several variants. The offer also included free supplementary functionalities e.g. convenient and fast computer-based handling of calls, integration with MS Outlook, the "remote office: functionality and all features of a virtual private automated branch exchange without the need to actually invest into the equipment. The Benefit Start calling plan is used by customers with a single telephone line connected in a one location, who however also want to use the functionalities of a modern PBX, place free IP calls and enjoy a stable and fast internet connection. The Benefit Light calling plan enables to plug in two telephones in a single PBX. The calling plans Benefit Optimal and Intensive are designated for multiple users – four and eight, respectively.

Mobile Network Products and Services

Voice Services: Higher Flexibility and Segmented Approach to Customers

In the area of mobile voice price plans, segmented approach of the Company to its customers is gaining ground. The Company offered in various campaigns, under the T-Mobile brand, several add-on service packages and price plans where the customer could create a customised price plan compiling the best possible combination of services based on their preferences and user habits.

Price Plans

The year 2010 was marked by further strengthening of the portfolio of the Podľa seba (It's Up to You) flexible calling plans. This solution enables the customer first to select the monthly fee from four price levels and then to build up their own price plan from packages comprising categories like free minutes to all networks, free minutes to the T-Mobile network, free SMS messages and free data allowance.

Under the T-Mobile brand, the Company introduced in the course of the year several new packages for the Podľa seba price plans, which customers could combine with standard service packages including various promotional packages in respective periods. Conventional price plans Viac and Relax remained on offer and customers could activate together with them several promotional offes with beneficial prices of data packages and discounted handsets.

The offer also included flexible services of short-term character: if the customer is interested in unrestricted evening calls or weekend SMS, such services can be activated and used in the course of several days or a week.

A separate chapter in the product portfolio concerned the launch of two price plans for customers with minimum requirements: Bez záväzkov (Rateplan Without Commitments) and Program 40.

Prepaid Easy Cards

In the prepaid card segment, popular benefits like toll-free calls after the third minute or 50% price reductions of services in the Easy Plus loyalty programme, continued. In autumn, a special free weekend campaign was launched within which the customer could, subject to topping-up in the given week, use free weekends calls over the following weekend. Along with that, Slovak Telekom expanded its Easy offering by adding a special variant of the Easy Free prepaid card with beneficial prices of calls and SMS for sale at Tesco retail chains.

Fix Price Plans

Also in 2010, the Fix price plan family formed a stable component of the portfolio remaining an excellent solution for less demanding users preferring a combination of a subsidised handset with flexible use of their telecommunication expenses based on the top up system. The portfolio comprises four price plans – Fix 0, Fix 9, Fix 12 and Fix 16 and customers could also use the special promotion offers of free calls after the third minute as well as the autumn and pre-Christmas deals of free weekend calls subject to topping-up. During the year, Fix price plans were made even more attractive by means of interesting choices concerning subsidised handsets, the opportunity to get extra credit or calls for 10 eurocents to all networks subject to concluding a new, or prolonging an existing, contract.

Roaming
In June, the Company launched for its customers various roaming offers. With the Roaming Plus solution, the whole world was split according to holiday destinations – the most frequently visited countries were included in a zone where customers could receive 30 minutes of calls per month free of charge.

Data roaming was promoted by means of four new price plans, where Data roaming EU offered benefits with respect to overall data use in all EU countries and the remaining three plans Data roaming Česko (Czech Republic), Rakúsko (Austria) and Maďarsko (Hungary) was designed for customers who travelled primarily to the respective countries and therefore had the need for a higher data package.

Promotional Handsets from T-Mobile
In 2010, Slovak Telekom introduced to the market almost 50 new promotional handsets. Several brands attracted attention as Slovak Telekom started selling subsidised novelties from HTC (Desire, HD2, Desire HD) and also introduced several bestsellers and special handset editions. The Company promoted under the T-Mobile brand also renowned handset brands and their leading models such as Nokia N8 and X6, Sony Ericsson with the Xperia product series, Samsung (models Galaxy S and Diva) and LG (mainly middle class handsets such as GM360 Viewty Snap and GS290 Cookie Fresh)

In the last quarter of 2010, Slovak Telekom started also offering its first tablets. In early November, the Huawei S7 was launched and in December, the long awaited Samsung Galaxy Tab model.

Data Services: Total Redesign of Portfolio for Mobile, PC and Notebook Surfing

2010 saw many premieres in mobile communications as well as brand new data service portfolios for data in mobile handsets as well as full-fledged PC or notebook data connectivity.

T-Mobile Mobile Internet
In the area of mobile internet, Slovak Telekom continued to market services based on both technologies – FLASH-OFDM and 3G with HSDPA/HSUPA layers. February saw a new service addition in the portfolio offering the possibility to use broadband mobile internet with a new payment scheme. The Mobilný internet 0 EUR is built around the prepaid service principle similar to the Easy card, where "credit" is deducted for the used up data allowance. The service is primarily designed to operate with 3G modems and data devices supporting data transmission rates up to 7.2 Mbps, based on the technology used.

In early May, the T-Mobile mobile internet portfolio underwent a complete redesign. Besides the recent novelty Mobilný internet 0 EUR, also the price plans Príležitostný mobilný internet (Occasional mobile internet) with 500 MB data allowance per month), Každodenný mobilný internet (Everyday mobile internet) with 5,000 MB and Mobilný internet na všetko (Multipurpose mobile internet) with 10,000 MB were launched. In August, the portfolio was extended with Mobilný internet Maxi (20,000 MB). The overall offering development was completed with the introduction of Mobilný internet 2,000 first launched for business customers and in September also for the consumer segment.

On 14 October 2010, Slovak Telekom added into its portfolio yet another novelty – three price plans T-Mobile neobmedzený internet (T-Mobile unrestricted internet) including a specific data volume (1.5 or 10 GB) customers could use with unlimited speed. However, after using up their data allowance, further data transmitted in excess are not charged but the transmission rate is instead slowed down to 64 kbps.

web'n'walk
Also the internet browsing on mobile handsets underwent in 2010 a complete portfolio redesign. The existing price plans were replaced with four new ones better covering customer needs and mainly with new mobile handsets with extended functionalities.

Also in 2010, Slovak Telekom introduced several promotional offers supporting use of data price plans including special discounts for mobile handsets enabling the customer to get in parallel a data package and a handset with a supported browser or large display facilitating convenient mobile internet utilisation.

Data and Terminal Equipment
In the first half of the year, several 3G modems were introduced to the market in the form of a promotional offering. The FLASH-OFDM device portfolio was also expanded with a Wi-Fi router with an integrated PCMCIA data card. The benefit of the novelty lies in the possibility to access the internet via several PCs or notebooks in a single household simultaneously.

In the second half of the year, the notebook offers for all fixed and mobile internet portfolios were merged. At the same time, an attractive discount for notebooks was offered just before the school year started.

Comprehensive Services for the Business Segment

Throughout the entire year, the business sector raised highly specific requirements derived from individual preferences of the segment; customers normally requested customised solutions as well as attractive offers for reliable communication in their working environment.

With voice price plans, the chief product in the voice service portfolio was the Podnikateľ (Businessman) monthly plan including free minutes not only to all Slovak networks but also the networks in the EU and USA in the basic package. These price plans gradually took on more and more benefits included in the basic monthly fee – after the spring campaign, customers could use one of the unrestricted minutes packages as well as 100 MB data allowance as a part of the price plan. At the same time, customers could add further services for respective fees: higher allowance of free minutes, SMS messages or data above the base level. In the end of March, a new price plan Podnikateľ 1200 was launched, targeting the most demanding users.

Small and medium enterprises could choose from two price plans Firma (Company) and Firma Extra (Company Extra), with a common price plan shared among employees and offering more beneficial prices for calls to all networks in Slovakia and the Czech Republic.

The largest roaming service offering is traditionally aimed at business customers. Besides the Euro roaming and Roaming Plus services, these clients can use the Smart roaming service enabling them to receive calls free of charge (included in price plans) on European mobile networks of the Deutsche Telekom Group member operators. This product moreover also offers the same price for SMS and MMS messages on all European networks along with a reduced price of calls from Slovakia to the Czech Republic, within the Czech Republic and from the Czech Republic to Slovakia. In the field of data roaming, the business community can choose from four new Data roaming packages.

Data services in Slovakia dedicated to this segment include the web'n'walk service offering, T-Mobile rýchly internet (including discounts related to parallel use of the voice price plan Podnikateľ) and the special data service Biznis data developed specifically for corporate clients. Biznis data provides shared utilisation of a joint package by several users simultaneously at favourable price conditions. The service is marketed in three variants (with 25, 125 and 350 GB data packages) enabling companies to use data in an optimum way based on various levels of complexity.

Mobile Content and Premium Business Development: Three Screen Integration

In 2010, Slovak Telekom implemented a project aimed at consolidation of the fields of premium, content, entertainment and information services on three screens in order to tap into cross-sell and up-sell effects between individual environments. The activity resulted in July 2010 in a concept named Digital Life Center with several goals set in September 2010 for the period of up to two years. The customer could use various services available already in 2010 on their PC over the internet (on the Zoznam portal), mobile handset; several services were available also on the TV screen with the Magio TV service.

The mobile handset continued to even more fulfil the electronic wallet function also in other environments (e.g. on the internet). At the same time, new spheres were entering the mobile handset diversifying the existing mobile business, such as mobile adverts.

A significant trend continuing already for the second year was the growth of mobile handset–based internet accesses; along with specialised internet pages for mobile displays, in 2010 some internet services made it also to TV screens (e.g. interactive video from free.sk is available besides the internet and mobile display also over Magio TV).

Digital Music

In 2010, development of digital music intensively continued focusing on the target audience for whom music is highly relevant. It turned out that the “ideal screen” for this segment is the PC, i.e. the internet; while the most appropriate “mediating and charging tool” is the mobile handset. This approach was followed in autumn 2010 in the development of the integrated project hudba.sk, with respect to which the Company registers dozens of albums within the “Zaplať koľko chceš“ (Pay as Much as You Wish) concept – the customer selects the price they want to pay for the music selected using a premium SMS service. At the same time, this initiative covered the existing and successful project related to the music events t-musiccity.sk as well as some unique songs available solely within the project (e.g. the song Najkrajšie Vianoce from Ivan Tásler was available for downloading exclusively from the designated internet portal).

Mobile Handset as a Payment Tool

Development of a new role for the mobile handset as a convenient interactive payment tool for consumer goods without a direct link to a bank account and with direct payment to the mobile operator continued to grow also in 2010. Compared to 2009, customer demand, number of services in the portfolio, as well as revenue in this area grew at double-digit rates.

In the field of transportation, for example, new services were implemented for sale of public transport tickets in Žilina and SMS-based parking in selected Slovak cities (Bratislava, Košice). SMS can be also used for purchasing various other products (newspapers, magazines etc.)

Mobile Games, Betting and Contests

Slovak Telekom (under the T-Mobile brand) together with the company Tipos launched as one of first operators in Europe in June 2009 brought out a new fully-fledged and safe way of playing lottery games (such as Lotto or Keno). The mobile handset is used for registration, sending bets, payments and also receiving prizes, based on the SMS and WAP technologies. This project, along with the unique technical solution and interconnection of two different systems was gaining an ever increasing number of fans throughout 2010. At the same time, the functionality was in this year expanded to include along with lottery games also mobile handset-based sports event betting, which was launched with the service name SMS tipovanie on the occasion of the FIFA Football World Cup in June 2010; since then the Company has registered an increasing number of users.

Already in the third year of existence, medium sized and large client contests, mainly based on SMS, confirmed their popularity with customers. In 2010 more than 350,000 customers took part in contests like Valentínska súťaž (Valentine Day Contest) for two Fiat 500 cars, 21 apartments in Bytobranie (Apartment Festival) with TV Markíza, as well as projects implemented with Zoznam such as Vyhraj 42 skútrov (Win 42 motor scooters) or the autumn project Dievča leta (The Girl of the Summer) for two Alfa Romeo Giulietta cars. Several contests combined the internet, mobile and TV environments.

Mobile Advertising

This new area, although it still lacks the necessary market standardisation and awareness among business customers, reported a certain progress in 2010. Gradually, several campaigns were implemented using direct channels (SMS) as well as mobile portals (WAP, web'n'walk via banners, links and separate subpages). At the same time, Slovak Telekom enhanced and modernised the service for use of advertising SMS (advertising info-channel), which registered towards the year-end more than 300 thousand active customers.

From the summer of 2010, digital advertisements were sold in a consolidated manner via Zoznam in both the internet and mobile (Slovak Telekom) environment with first results already delivered.

Although the potential of this area is yet to be explored, it is gradually becoming a new revenue source for Slovak Telekom.

Digital Life Center: Source of Growth

The development of content and premium services consolidated under a single managerial roof – Digital Life Center – reported year-on-year growth for all screens mainly in financial terms. Premium and content services (entertainment and information), for example, were used from a mobile handset by some 800,000 unique mobile customers while the spending of each of them was in 2010 some EUR 20 excl. of VAT, which is more than in 2009.

Internet Content Services

The internet portal Zoznam.sk offers users attractive services aimed at facilitating convenient access to online information. Altogether, Zoznam offers more than 40 services giving the user a web browsing function, Katalóg firiem (yellow pages) enabling also very small enterprises to tap into the possibility of professional internet presentation of their business along with their contact data. The portfolio comprises specialised content magazines Mojdom.sk, Autoviny.sk, Dromedar.sk, oPeniazoch.sk, Feminity.sk, Baby-web.sk and oZene.sk.

Typically the most visited products included the title page – the gate to the world of the Slovak internet and the news portal Topky.sk. Thanks to its extensive product portfolio, Zoznam can satisfy a broad spectrum of interests for users. Also popular products are Slovníky (Dictionaries), Pauzička (Break), the freemail service mail.zoznam.sk, public transport timetables, on-line job portal Kariera.sk (career) or the real-estate portal m2. Last year's innovations such as the children's portal Rexik.sk, the portal for present and soon-to-be parents Baby-web and lifestyle portal Feminity.sk gained shortly strong popularity of visitors. Also thanks to this, Zoznam managed to get more than 160,000 new real users when compared to the past year.

In 2010, Zoznam managed to fulfil the strategy of gradual transition of internet content to mobile displays. Utilisation of the internet using smart phones keeps constantly growing and mobile surfers' behaviour also changes along with that. Access to the internet via mobile handsets, previously used mainly for checking emails, operative information web search and internet banking is presently becoming similar to the style of desktops. Effective access to information, the fast retrieval of webpages and reduction in data volumes save time and money for users.

At present, Zoznam offers mobile users a broad array of optimised services – the title page Zoznam.sk, translation dictionary, public transport timetables, Katalóg firiem (yellow pages) as well as search services – catalogue and full text search, search in pictures and Slovak operators´ directories. The mobile version of the Zoznam pages together reported per month more than 1,300,000 visitors. As the first website on the Slovak market, Zoznam started addressing users who access to the internet via various types of advanced mobile handsets on the move not only in the form of banner advertisements but most recently also in the form of contextual PPC advertising. Contextual mobile advertising can be found on optimised content webpages – Topky, Dromedár, Môj Dom (My Home) and Športky.

Several innovations in the form of new products were introduced to supplement the Zoznam service portfolio. First of them is Športoviská (sports grounds), a guide to Slovak sports facilities aimed at all active lifestyle seekers. The portal Športoviská.sk maps out sports resorts, halls, playgrounds, ski resorts and fitness centres creating an easy and convenient way to find information about sports facilities from a single page without lengthy searching.

After the successful projects www.mojdom.sk, www.urobsisam.sk and www.peper.sk, a new functionality was added with the internet address www.projektyRD.sk which is a suitable supplement to the internet portals dedicated to homes due to its specific content. The decision to create this online novelty was based on the success of the printed edition Projekty rodinných domov (Family Home Projects), which is among the most popular journals of the JAGA publishing house. The online catalogue provides an exhaustive overview of family house projects from dozens of architects and designers.

Another new feature is a guide to the world of music. A novelty in the product portfolio of Zoznam, Hudba.sk is devoted not only to all users interested in music and anything connected with music but also to music authors and performers. On the theme of music, a new extension of the Zoznam product line provides users with an insight to music news and trends in Slovakia and abroad. The site features reviews, interviews and information about performers, bands and discographies organised conveniently in the form of a catalogue.

Thanks to Zoznam, all lovers of books in Slovakia and the Czech Republic can read the most recent works by Slovak and foreign writers in electronic form as ebooks at Rajknih.sk (Book Paradise). The Czech and Slovak shop with electronic books Rajknih.sk brings the possibility to read ebooks also for those who do not have specialised ebook reader hardware. The site offers visitors an original reader solution Wooky, free of charge. Owing to cooperation with mobile operators, books can be bought via mobile handsets. When purchasing, all one needs to do is confirm payment by a simple click and the ebook price is added to the telephone bill or deducted from the prepaid credit of the caller.

The internet portal Zoznam.sk improved its unique map application and introduced a brand new design and functionality. Convenient manipulation, user-friendly design, logical navigation – mapa.sk reflects all criteria and expectations important for users. A significant change was implemented also with respect to the domain itself as it changed from the former Kompas.sk to the easy-to-remember and more intuitive mapa.sk.

According to an independent audit of Mediaresearch, Zoznam.sk users correspond to **59% share** of all Slovak users.

ICT Solutions by PosAm

PosAm designs, implements and operates its own services, application and infrastructure solutions in key business segments. The principal benefit for customers is to increase the efficiency of the core and supporting processes, whilst offering more services in other areas.

Banks
PosAm provides solutions designed to support core processes such as mortgage loans, VIP clients, corporate clients and supporting processes associated with budgeting, central purchasing, asset management, the document lifecycle mana-

gement and identity management. Within comprehensive Customer Care PosAm provides IT operations and software development on an outsourcing basis.

Financial Institutions and Insurance
Solutions for insurance companies support mobile sales through sales representatives, Customer Relationship Management and the settling of insurance claims. Covering major processes significantly contributes to innovation in the sales network management, rapid introduction of new insurance products and improves customer satisfaction and loyalty.

Industry and Utilities
The segments where PosAm focuses primarily on the provision of operational services, outsourcing and application development to support control, core and supporting processes. Our expertise is the guarantee of specialist advice and professionalism, whether in the provision of services or the development of custom made applications.

Public Administration
Within public administration and local government PosAm has long given support for software development to underpin core business processes and for delivery of operational services. Budgeting in state administration presents a key process, managed by PosAm's solution – Financial Information System (RIS) – a prerequisite for the functioning of the Treasury. Our company is also active in the area of healthcare where we implement solutions for medical registries, terminology and secure communication between healthcare providers and health insurance companies.

PosAm Infrastructure Solutions
PosAm designs, implements, operates and provides servicing of standalone and integrated infrastructure elements, focusing mainly on consolidation of information systems. Infrastructure solutions also embrace application delivery, storage, backup, archiving, virtualisation, the design and implementation of security elements for internet access, corporate know-how and information/data. PosAm makes use of its partners' progressive technologies such as Cisco Systems, Citrix, Hitachi Data Systems, Hewlett-Packard, IBM, Lenovo, Microsoft, Oracle and VMware.

PosAm Application Solutions
Deployment of application solutions, delivers customer benefits when it makes business processes, internal communication and knowledge sharing more efficient. The solutions must be flexible and long-term due to open standards. Through continuous improvement of domain and technology expertise PosAm supports the entire lifecycle from solution design to its operation.

Information Technology: New Business, New Services, New Customers

In the field of Information Technology, the Slovak Telekom's 2010 focus was mainly on systems stability, support of processes and solutions during the merger of companies. Emphasis was placed on the customer so that our internal activities lead to better services, products and solutions, optimization of a joint network of sales agents, processes and customer solutions.
We continued to extend IT support for products and services provided based on broadband internet access via FTTH and FTTB (i.e. methods "fibre-to-the-home" or "fibre-to-the-building"), as well as improved versions of Magio Sat.
At the same time the companies concentrated on improving the quality, efficiency and speed of service to our customers, and security of sensitive data.

Most Important IT Projects in 2010

From the perspective of business as well as customers the key project of 2010 was the merger of the companies. The Information Technologies Department had to deal with the rebuilding of basic infrastructure systems and IT services, with a view to unifying business processes not only towards customers, but also inside the company.
The highest priority was assigned to the project of rebuilding customer systems (CRM) into a single unified solution within the international programme of Deutsche Telekom – **N**ew**G**eneration **CRM**, which meets all the requirements for CRM of a modern integrated telecommunications operator. Slovak Telekom is playing an important international role in this project; in cooperation with three other countries it is building a solution whose ambition is to be the solution for the entire Deutsche Telekom Group.

A big benefit is the creation of automated solutions for a more efficient distribution of work in contact centres and BackOffice. This solution increased the speed and quality of customer service, increased the percentage of processed telephone orders at first contact, at the same time improving the utilisation of operators.

Other important projects of infrastructure unification and the integration of processes included One Company Mail, One Company domain services, One Company sales channel support, One Company ERP/SAP or One Company HR.

The transition to a higher and more advanced version of the Network Inventory tool – CRAMER optimised the support of customer service provisioning. The merged company continues an expansion of service-orientated architecture (SOA), which facilitates effective integration of systems and enables significant simplification and acceleration of processes, particularly in the setting-up of customer service and its IT support. Strengthening the enhancement and acceleration of the service provisioning is the goal of the geographic information system called Megaplan, which in 2010 was supplied by large volumes of data of technology and geographic documentation. Megaplan significantly accelerates also the planning and implementation of technical infrastructure of Slovak Telekom networks, and with the addition of geographical information it accelerates the processes of troubleshooting.

In 2010, Slovak Telekom invested heavily in building optical infrastructure, allowing customers to utilise new services over the latest state-of-the-art technology – optical network. In parallel, the expansion of IT systems functionality of processing purchase orders for network inventorying, workflow and the activation platform is systematically taking place, in order to automate to a necessary extent the preparation and implementation of these services for the broadband internet products such as Magio and its latest version – Magio Sat Bez záväzkov (without obligations). This solution will ensure broadband TV signal distribution via satellite, and enable customer interaction through classic

internet connection in the fixed network. The product allows full distribution of the complete Magio TV package including all interactive services, even in locations either not covered by the optical network or without fixed line copper network of sufficient quality in place.
In terms of improving internal efficiency the company continued improving its billing process, such as bi-monthly billing, electronic invoice etc. By integrating IT support of the T-Com and T-Mobile sales networks the company provided its customers with the option to make unified purchases of certain mobile and fixed products at a single place (one-stop-shopping).

In the field of infrastructure, the focus is on operational excellence, a key part of which is virtualisation, consolidation and centralised relocation of the Unix, Windows and SUN environments, storage and Security zone. Streamlining the desktop and printer operation under the operational excellence programme helped save financial resources while also contributing to environmental protection.

In 2010, a key element of business strategy for Slovak Telekom was ICT business development. Within this program IT is implementing a strategic project of building a commercial data centre for major customers in the areas of finance, insurance and for customers within state institutions, which have a need to store critical business data or run high level accessibility information systems. The second important event in this field was the acquisition and integration of an important partner on the Slovak ICT market (PosAm) into ST and building a mechanism of joint action on the ICT market.

The year 2010 was also a time for the deepening of strategic cooperation within the Deutsche Telekom Central European group. This cooperation is manifested mainly in the standardization and unification of IT solutions, the sharing of competencies and resources for addressing demands also in the field of system integration. Within this cooperation, IT Slovak Telekom was highly successful with integrating and supplying billing systems upgrade for the Croatian sister company T-Hrvatski Telekom.

Technology, Higher Speed and New Hardware

After the integration of the companies Slovak Telekom offers a wide range of technologies, while four of them have strong coverage throughout Slovakia offering broadband access to the internet or use of numerous multimedia services.

In the area of fixed network, connection via **DSL technology** saw a continuous increase in the number of accesses and also via optical network. Widening of the coverage for ADSL2+ technology allowed additional households in rural areas to use Magio broadband internet and Magio digital television via the fixed network. At the same time Slovak Telekom expanded its reach with the latest optical network. By the end of the year, the number of households with the option to use services like Optik reached 338,000, in 22 cities. Slovak Telekom’s optical services were also available in selected development projects outside these cities. Also in 2011, coverage of Slovak Telekom’s multimedia services will grow further.

In the area of mobile networks **FLASH-OFDM** is available (with nearly 80 percent of the population covered) and 3G with extensions of **HSDPA** and HSUPA. In 2010 Slovak Telekom significantly expanded coverage of the 3G mobile network with extensions, which allow customers to surf the Internet or watch multimedia content comfortably on the road or on their mobile phone. A fast 3G mobile network enabling among others also video calls covered more than 42% of the population at the end of 2010. Among the new cities covered include: Bánovce nad Bebravou. Dubnica nad Váhom, Hlohovec, Holíč, Ilava, Komárno, Kysucké Nové Mesto, Levice, Liptovský Hrádok, Liptovský Mikuláš, Michalovce, Nemšová, Nová Dubnica, Nové Mesto nad Váhom, Nové Zámky, Partizánske, Piešťany, Prievidza, Senica, Skalica, Spišská Nová Ves, Šala, Topoľčany and Trenčianske Teplice.

Following the gradual expansion of the 3G network Slovak Telekom managed to update its portfolio of broadband services on mobile networks and continually introduced completely new programs to T-Mobile’s mobile internet services (connection to a PC or notebook through data cards or modems), web’n’walk (surfing on mobile telephones) and even broadband connection on pre-paid cards (Mobile Internet 0 EUR). In addition to these services the customers can choose from a continually enriched portfolio of data hardware.

As for 3G networks, various models from brands Huawei and ZTE were introduced. Apart from the stable offer of Leadtek USB modems and Leadtek Express cards for FLASH-OFDM technology, Leadtek WiFi router with integrated PCMCIA card that offers connectivity via FLASH-OFDM technology and also spreads the signal to multiple devices.

Slovak Telekom henceforward offers the unique combination of FLASH-OFDM and 3G technologies in one single data device with the capability of switching technology upon demand. Leadtek Multiband modem supports 3G network with the extension HSDPA and FLASH-OFDM in the current settings and allows the customer to use the best rate according to the actual coverage.

Human Resources as a Business Partner

In 2010, the Human Resources Unit significantly contributed to the merger of companies Slovak Telekom and T-Mobile Slovensko, and to the creation of an integrated company and operator with a broad service portfolio.

Slovak Telekom in 2010 had 4,650 employees with approximately 60 % male and 40 % female personnel. In the given period, the companies Zoznam and Zoznam Mobile had 72 employees where more than 54 % are male. The headcount at PosAm was 258 with approximately 78 % male and 22 % female employees.

The 2010 year-end data indicated that the average age of Slovak Telekom's employees was 38.7 years, while the average age of employees of Zoznam and Zoznam Mobile was 32 and of PosAm 35 years. More than 48 % of Slovak Telekom employees are university graduates; secondary school leavers with a final school leaving examination amount to 52 %.

2010: Milestone in Remuneration and Employee Benefits

With respect to the integration of the two companies, the first half of 2010 was dedicated to gradual development of the new company's organisational structure and its step-by-step alignment and fine-tuning of all systems in the area of remuneration and employee benefits.

The IT and telecommunications sector is in the long-run among leaders in remuneration, which is why the company strived in the process of their creation to align and set up a fair and competitive remuneration policy and schemes reflecting the situation in the company and on the Slovak market.

In its alignment efforts, the HR Unit started designing a variable remuneration scheme for managerial positions as a joint management team was already established on the date of the companies' merger and it was therefore possible to apply joint rules for a coherent group of job positions. In the months following after the merger, the Company started designing the remuneration scheme for other groups of job positions to be implemented in the first half of 2011. The employees continue to be rewarded based on their individual performance, which is reflected also in payment of the individual part of bonuses.

As of the merger of the two businesses, the Company successfully launched the policy of joint employee benefits provided in the form of the so-called cafeteria, i.e. by selection from pre-defined products and services, where employees can get discount or favourable conditions for purchases (e.g. in relation to healthcare or relaxation facilities). Employees can choose from a wide array of products and services similarly to the situation in both companies prior to their merger. At the same time, employees can activate employee products from the fixed product portfolio and TV and also use discounts for mobile products in the form of discount vouchers for their family and friends. Another employee benefit comes in the form of an enlarged portfolio of third parties offering discounts on their products and services for the Company's employees.
One of the priorities for the upcoming years is the development of new applications as well as aligning electronic HR tools in order to increase effectiveness of selected processes.

Education and Development

The area of education and training was in 2010 focused primarily on development of employees in direct customer contact, as well as on development of leadership competencies of managers. Another priority was defined as development of competencies necessary for coping with change and change management. In the area of change management, we held 50 workshops for managers led by internal facilitators.

In 2010, a total of 690 internal and external training activities were organised in Slovak Telekom with 5,500 participants. The average number of training days per employee was 1.7. The average cost of training per employee totalled EUR 210.

The focal point of front line employee development was adaptation and product training as well as soft skill training. On the whole, our internal trainers provided 900 days of training to 3,600 training participants in the above areas.

Also in this year, employees were invited to choose a self-training option in the form of e-learning programmes (focused on development of PC skills, language skills, knowledge of products and services of T-Mobile Slovensko, a.s.), language courses on CD or books, and journals available from the library.

Cooperation with Secondary Schools and Universities

In 2010, Slovak Telekom further expanded its cooperation with the student, academic and pedagogical community. The Company participated in several job fairs for students such as Dni príležitostí (Opportunity Days) and Národné dni kariéry (National Career Days), where it was awarded for the most attractive booth.

Programmes the Company has consistently prepared for students include:
- Diplomovka v ST (University Thesis at ST) used by 10 university students writing their thesis.
- Global Internship program
- Specialised events, lectures and on-site visits;
- Job opportunities for students and university graduates;
- Virtual student club.

The HR Unit employees organised, in cooperation with professionals from other functions, several on-site visits for secondary school and university students (e.g. for the Slovak Technical University and Secondary School of Transport and Telecommunications in Trnava) in specialised classrooms and workplaces at Slovak Telekom. More than 200 students had the opportunity to visit the central testing laboratory, to learn more about the GPON technology and to visit our base stations as well as to take in several practical demonstrations.

Within the cooperation with the teacher community, Slovak Telekom organised in 2010 a two-day training for specialised secondary school teachers in which teachers obtained in-depth information about our Company's current services and technological base. The training programme was attended by teachers representing 12 schools across the country. Its goal was to provide teachers with information about the current market situation and telecommunications products and services and in this way to enrich the schools' curricula in terms of specialised classes by adding real life examples and information.

The Company in 2010 launched a pilot long-term onsite learning scheme for specialised secondary school students at our workplaces as a pivotal program of mutual cooperation with secondary telecommunications schools. The project includes secondary schools in Banská Bystrica and Košice. Onsite learning for the school-year 2010/11 will be attended by eight 3rd grade students, who were successful in the primary selection process at their schools and later also in thorough interviews held at our Company.

Slovak Telekom organised already the sixth annual conference Telekom Day designed for technical university master's degree students. The conference participants had a unique opportunity to learn about the most recent trends and visions directly from the Company's experts and to hear presentations of technologies and applications used by the operator. The key topic of the 2010 conference held on 18 November in Bratislava was integration of technologies. The presentations also included topics like hybrid digital television evolution, data service migration and integration of technologies.

Along with 72 Slovak university students, the conference was also attended by students from the partner University of Leipzig, with which Slovak Telekom cooperates on student exchange and specialised lecturers. The conference also welcomed rectors of the Slovak Technical University and the Technical University in Košice, deans of Technical Faculties of all three Slovak technical universities as well as other representatives of the academic community. Like in previous years, an important part of the conference was the meeting between representatives of the academic community, rectors, deans and teachers.

Effective Communication – the Basis for Reaching Targets

Open communication towards external and internal environments is the basis of the communication strategy of companies forming the Slovak Telekom Group. The key functions mediating information are marketing and corporate communication, comprising internal and external communication of the Company. With a view to the Company's business orientation, it is only natural that the main goal of media communication is product and service sales support.

Slovak Telekom

The anticipated integration of Slovak Telekom and T-Mobile Slovensko required the merging of the Corporate Communications sections of both companies into one, enacted several months ahead of the integration date to ensure unambiguous and effective communication for the entire integration process. Naturally, the integration was the key topic of mainly internal communication; the goal of which was to gradually present the changes in both companies along with the creation of the so-called One Company – the new entity coming into existence on 1 July 2010. The external communication reflected the communication needs not only regarding the integration, but also other corporate topics and simultaneously supported a large share of product-related publicity as well as promotion of the T-Com and T-Mobile brands. Marketing communication played a significant role in supporting product sales and the integration, supporting both brands separately during the first half of the year and launching several joint campaigns in the second half of the year promoting both brands.

External Communication

The Company's external communication activities were in the course of 2010 greatly influenced by the integration of Slovak Telekom and T-Mobile Slovensko. The merger of the two national operators was closely watched by all types of media throughout the year; this topic in total generated more than 80 articles, television and radio reports.

In spite of that, also in 2010, the key priority for external communication was positioning Slovak Telekom as a multimedia operator providing customers with a full array of products and services following the principles of corporate responsibility. According to the AVE analysis (Advertising value equivalent) developed by the SITA news agency (period until 30 June 2010) and the Neopublic agency (from 1 July 2010), the value of media outputs was EUR 2,799,686.

A suitable selection of PR tools and segmented approach to various types of communication channels made it possible to present topics related to both fixed and mobile networks in the


NOVÝ TELEKOM

Slovak Telekom a T-Mobile Slovensko sú od začiatku júla jedna firma


REVUE • prehľad

Všetko o digitálnej televízii / 3. časť

Televízia Magio

a jej výnimočné funkcie

media. Also in this year, various corporate as well as regulatory topics resonated in the media; with the product communication share still remaining high. The launch of the commercial sale of the digital satellite TV Magio Sat and the launch of the stylish Apple iPhone 4 handset attracted extensive attention in the media.

Traditionally, external communication provided communication support also to the project Magio beach and four musical events T-Mobile Music City held in cities across the country, which were also highly popular within the media. In order to ensure effective work on the T-Mobile Music City concept, the media can use a dedicated section in the pressweb enabling them to get topical news and information about planned events as well as quality photographs and input materials for the preparation of media releases.

An important component of the media strategy was also the positioning of the management team members in the media in the form of interviews, profiles, polls


66 HI-TECH PLUS 7 DNÍ

Vizionár

S klasickými televízormi sa už čoskoro rozlúčime, nahradia ich 3D zobrazovače, schopné pracovať s obrovským množstvom dát, predpovedá Miroslav Majoroš

Foto: JURAJ ROŠČÁK

Foto: Telekom

PLUS 7 DNÍ HI-TECH 67


Fúzia

Ak by sa T-Com a T-Mobile nespájali do jednej spoločnosti, **Rüdiger J. Schulz** tvrdí, že by sedel na Magio pláži a pozeral na Dunaj. Keďže tento nemecký manažér, ktorý už štyri rokov žije a pracuje na Slovensku, je zodpovedný za oblasť sietí a IT, tak väčšinu času trávi v kancelárii. Ale je rád, že aspoň počasie mu začiatkom júna hralo do karát a daždivé dni ho nedráždili ísť von.

[autor - Palo Hlubina]

Pod jednou firmou

Na Slovensku je to čoraz viac o tom, že ľudia majú tendenciu byť šťastní, keď im šéf povie, čo robiť

or positions to a given topic providing readers with an insight into their work, their area of expertise or also their opinion concerning current trends or developments on the telecommunication market. In the course of the year, several interviews with, and profiles of the Company's Executive Management Board were published in opinion-making dailies, weeklies or bi-weeklies, several lifestyle or specialised media and TV discussion panels.

Media appearances of the management members supported in 2010 primarily two objectives – (i) to explain the integration and its individual steps along with the fact that the integration was primarily an internal process that the customer should not notice; and (ii) individual new trends in telecommunications and ICT businesses. Interviews were published predominantly several weeks prior to and after the integration; as well as towards the end of the year when the management members assessed the integration benefits for individual functions and the Company as a whole (e.g. in the area of marketing, human resources, IT and technologies).

The Company strived to develop media relations using multiple tools. A natural activity was prompt handling of media queries on a daily basis. Media representatives received information also at press conferences, informal meetings with the Company's management, specialised conferences and product presentations connected with practical demonstrations of a given product. An important information source was also the website www.slovaktelekom.sk. Every year, the External Communication Department prepares, within its overall comprehensive communication policy towards the public, also the Annual Report and the Corporate Responsibility Report. Both reports are available solely in an electronic format, in line with the environmental strategy of the Company.

In the course of the year, cooperation with lifestyle media developed, which enabled communication of sponsorship activities of the Endowment Fund of Slovak Telekom and the Slovak Telekom Award. Owing to the cooperation with specialised media, a series of thorough reviews of the digital television Magio and its new functionalities were also released.

Slovak Telekom facilitated the attendance of several Slovak journalists' at the most prominent specialised events in the field of IT and mobile communication, such as the Mobile World Congress held in Barcelona.

Internal Communication

Internal communication is the key for a challenging integration period, which besides merging all functional areas of the two companies stands also for the merging of two different corporate cultures. From February 2010 onwards the merged Internal Communication Department started to communicate in a systemic and coherent manner all information towards employees of the then still two separate companies. Internal communication executed not only its base function of providing information; it also played a decisive role in motivating employees, erasing differences between the two corporate cultures and reinforcing the capability of employees to cooperate and comprehend the anticipated changes.

The primary joint platform for employee communication was, in March 2010, a series of eleven meetings of all members of the soon-to-be top management of the integrated company; with 3,051 employees, in six Slovak cities. Three hour long meetings with optional participation provided room for the presentation of business results of both companies in 2009, strategic goals for the upcoming period including integration plans and mainly for mutual dialogue between employees and the management.

From the official announcement of the integration date to the legal merger date, the key information source for employees of both companies were corporate intranets operating still separately with selected pages dedicated to the integration as well as email communication running in a special mode. Changes in the organisational structure and information about the ongoing staffing of managerial, as well as employee positions, were in the long-run the main and logically the "most wanted" communication content; which required systemic management and publishing with precise time management.
The most frequently used tool for dissemination of information concerning organisational changes were direct emails from the management's top members. The email accounts integracia@st.sk and integracia@t-mobile.sk, a new communication channel, were created as a hub for all the information related to the integration project while also serving as feedback email addresses for employee queries with a guaranteed response from competent managers.

In May 2010, a special and unique "mirror" issue of the internal journal was created combining the historically last issues of the employee journals Sme Tím (We Are a Team) of Slovak Telekom and "echo" of T-Mobile Slovensko, as far as their standard content structure and graphic design were concerned. The two periodicals "met" in the middle pages dedicated to joint topics: an informal introduction of the new top management, new corporate principles, Slovak Telekom and T-Mobile Slovensko in figures and historical facts, joint projects, a typical working day in each company, stories of "joint" marriages combining employees of Slovak Telekom and T-Mobile Slovensko. The joint pages were the foundation for the creation of a new periodical for the integrated company Slovak Telekom under the name T-Time. The title was selected by employees via an intranet-based poll; the first issue was also an employee guide in the new company, which was presented to each employee along with a special gift upon their arrival at work on the day of the integration.

The integration was explained to employees also using a story inspired by routine situations in everyday life. The poster cartoon campaign featuring a couple named Tina and Tibor, which was launched in May 2010 in all major buildings of Slovak Telekom and T-Mobile Slovensko around the country supported also on the intranet and omnipresent stickers, ran parallel to the integration process. From getting to know each other, learning from each other, learning how to live together and building tolerance to the wedding on 1 July 2010, i.e. precisely on the day of our Company's legal merger.

The actual wedding of Tina and Tibor, our campaign's main characters, which was held at the Magio beach in Bratislava, was open for all employees of the integrated company. The wedding invitation was also an invitation to the first joint company party. The top management took up the role of witnesses for the newlyweds; employees as wedding guests enjoyed a great joint summer show with music performances, an interactive programme and sports competitions.

The day of 1 July 2010, the date of the legal merger of Slovak Telekom and T-Mobile Slovensko, was a triple premiere day for the internal communications team – starting with the joint intranet and its new graphic design and structure including all important applications from both former companies, the joint internal journal featuring 36 pages in a new design and the first joint employee party.

This day, however, did not mark the end of the integration. The process of internal integration of the company and alignment of corporate cultures continued also in the second half of the year with internal communication always playing a key role. The key communication tools throughout the entire integration year were the intranet, company journal, employee and managerial events and more than usually also creative poster campaigns, the key mission of which was to create a positive atmosphere and loyalty among employees towards the integrated employer.

An important contribution of internal communication to the corporate culture unification was the new Employee behaviour standards in the integrated company, the electronic version of which along with an e-learning test was available to all employees from December 2010 on the intranet. This practical internal 36-page manual encompasses, besides the explanation of the new Guiding Principles, the standards for personal, written and telephone communication with colleagues and customers as well as the dress code with advice and tips from communication and diplomatic protocol professionals. The standards combine elements of both corporate cultures and the proven know-how of both former companies brought together for the purpose of synergy-based building of a positive image of employees in relation to both internal and external customers.

Since 2010, the Internal Communication Department at the integrated Slovak Telekom is the organiser of the largest employee Christmas party in the country. Close to 3,500 employees from 55 towns and cities had on 17 December 2010 their first so-called Bukekela party, under one roof with a total floor space of 15 thousand sq. metres. Diverse live music production, food available all night long, chill-out zone, interactive competitions and other activities marked an outstanding milestone after the integration year of 2010.

Marketing Communication

The key task of marketing communication in 2010 was to continue developing the T-Com and T-Mobile brands, to support the sale of key products and services, and last but not least to prepare and implement integrated marketing communication of both brands after the merger of the companies Slovak Telekom and T-Mobile Slovensko. In the first half of 2010, both key brands were communicated separately.

T-Com Brand in the First Half of 2010

The T-Com brand communication was focused on support of voice services provided over the fixed network, internet connectivity, digital television and optical network services. The brand successfully maintained its position as far as quantitative and qualitative indicators are concerned.

With increasing competition in all telecommunication market segments, the T-Com brand also in 2010 confirmed its position as the best known provider of comprehensive telecommunication services; the best known provider of optics-based services and the best known provider of digital TV in the country. The brand scored a significant success also in the field of satellite TV signal, when in the second half-year it became the best known provider of satellite-based digital television.

The Magio TV service confirmed its popularity on the Slovak market and successfully defended its position of the best known digital TV service. Intensive support to the Magio internet service continued (the service was marketed under a new name from June 2009) and its awareness significantly rose during the course of 2010. Continuous support to the new service Magio Sat as a digital TV signal distributor via satellite was reflected in the steeply growing preference for the product. (Source: GfK, Advertising Tracking Study, January 2010, May 2010, September 2010).

Communication campaigns of the T-Com brand were implemented in the first half of 2010 in the form of two communication packages, within which individual parts were linked with a joint creative idea and uniform visual style.

The spring package "Animals" comprised 5 parts – Magio internet, Magio Sat, Rodinná linka (Family Line), Magio IPTV and LCD TV sets; its prime achievement was the successful launch of the Magio Sat service on the Slovak market.

The goal of the summer communication package "Dédé – African Hamšík" was to build on the African World Cup qualification success of the Slovak football team, the platinum partnership of T-Com with the Slovak national team and last but not least also to support the product line promoted. The main character of the campaign was a 13-year old boy Dédé from the South Africa, a fan of Marek Hamšík, the Slovak national football team captain. On the product level, the campaign supported the services Magio Sat, Magio internet and Rodinná linka (Family Line). The campaign also included an interactive webportal www.hamšíkovo.sk and communication via social networks, mainly Facebook. The "African Hamšík" campaign

was evaluated by consumers as the best Slovak campaign linked with the Football World Cup and gained huge popularity – it scored more than 700,000 views on YouTube, and Facebook had more than 26 fan groups for the Dedé adverts with the total number exceeding 400 thousand Facebook users.

Educational TV spots continued to be an important element of communication supporting the Magio TV/Magio Sat service with a detailed explanation of the service functionalities and benefits, which significantly influenced the motivation of Slovak consumers to purchase the services.

The T-Com brand achieved in 2010 several awards for creativity and effectiveness of marketing communication. The most valued successes of the T-Com brand relate to the national marketing communication efficiency competition EFFIE Slovakia 2010. The silver Effie went to the campaign "Space shuttle" supporting the optical network service and to the summer communication campaign "Dédé". The campaign "Animals" introducing the service Magio Sat to the market made it onto the shortlist.

T-Mobile Brand in the First Half of 2010

Communication of the T-Mobile brand in 2010 continued developing the “Life is for sharing“ concept focusing mainly on support to the Podľa seba (It’s up to you) price plans and support to internet services. The company at the same time launched a new service on the market – prepaid mobile internet. Emphasis on communication of internet services was reflected in an increasing awareness of the T-Mobile brand as an internet service provider. (source: GfK, Advertising Tracking Study, January 2010, May 2010).

From the communication perspective, the T-Mobile brand opened the year 2010 with an acquisition and loyalty campaign promoting the Podľa seba (It’s up to you) price plans. The key motif is based on the core principles of the price plans; the customer chooses how much they want to pay and subsequently create their own unique price plan. The creative implication depicted a girl at a train station having control over everything going on at the station.

The second campaign promoting the Podľa seba price plans was the campaign “Statue” – a group of young people went downtown and dressed up a statue on a city square in various costumes.

In February, an innovative and unique product was launched on the market – mobile internet without any contractual commitments. The customer can use the product without monthly bills, while paying only for the volume of data actually used. The TV spot is located in a train, which emphasises the products mobility and availability around the entire country.

In May, another campaign titled “Mobile internet without contract” built on the campaign “Train”, featuring the famous rapper Rytmus, which was a great success. In a self ridiculing posture and wearing a Mickey Mouse costume, Rytmus sings the famous children’s song “When You Are Happy”. Already on the very first day after it was posted and before the campaign launch, the video accompanied with the song scored more than 100 thousand views on YouTube. The campaign became T-Mobile’s most successful campaign of 2010. Both mobile internet promotional campaigns included an online platform offering besides product-related information also entertainment applications with the campaign motifs thus reinforcing the T-Mobile brand relationship.

The last campaign preceding the integrated communication was the retention of the campaign Bomba leta (Summer bomb), the main goal of which was to motivate the existing postpaid customers of T-Mobile to prolong their contracts. This campaign built on the successful creative approach from the previous year – the swimming pool choreography.

Throughout the year, the service Fix continued developing the platform built around the animated character Fix in 3D animated spots, which also in 2010 reached excellent awareness, brand affiliation and very good purchase motivation, within the target group.

The T-Mobile brand in 2010 also gained valuable awards for the creativity of its marketing communication. At the national creativity festival Zlatý klinec 2010 (Golden Nail), the company received the bronze nail for its Christmas campaign 2009, bronze nail in the category sponsorship and special events for the project “Prenajmi si Santov” (Lease Your Santas) and bronze nail in the category Interactive & Online for the project “Kolomačka – web’n’walk”. In the national marketing efficiency contest EFFIE Slovakia 2010, the company was shortlisted with its campaign Christmas weekend calls.

Marketing Communication in the Integrated Company

A very challenging task that the marketing communication function faced was to prepare and implement integrated communication of the T-Com and T-Mobile brands following the merger of the companies Slovak Telekom and T-Mobile Slovensko from 1 July 2010.

The goal of the first integrated campaign was to communicate the merger of the brands T-Com and T-Mobile, to build the position as a clear telecommunications market leader and last but not least to effectively support the sale of key products and services. This goal was implemented in the form of the creative concept “Wedding”, and supported with the slogan “Spájame sa, aby ste mali tie najväčšie výhody” (We are becoming one, for you to get the best benefits). The summer campaign “Wedding” was executed in the form of a communication package with three main parts – Podľa seba (It’s up to you) price plans, Magio internet, Magio Sat, while each part was supplemented with an attractive benefit – Mobile internet without a contractually committed period for free. The campaign also included an interactive, entertainment and information-related website www.svadbaroka.sk.

The campaign perfectly fulfilled its communication goals, when already a few weeks after the campaign launch, the awareness of the merger of T-Com and T-Mobile brands was on a level of above 80% of Slovakia’s population with a dominantly positive perception of the merger.

The joint summer campaign of T-Com and T-Mobile “Pop video” was a unique marketing project. This activity was prepared in cooperation with other countries within the Deutsche Telekom Group. The company offered 33 young people from Slovakia an opportunity to be featured in the most recent video of Katy Perry, a pop superstar. As many as 9,240 young Slovaks showed their interest in appearing in the video by registering at the dedicated page www.katyprojekt.

sk. From a product perspective, the campaign supported the sale of notebooks in connection with the services Magio internet and mobile internet. The project resonated mainly with young people and the project website was visited by a total of more than 336,000 unique users.

The integrated communication also encompassed campaigns aimed at specific segments – e.g. fixed line users or corporate clients. One such campaign was "Podeľte sa o úspech v podnikaní" (Share your business success) focused on SOHO and VSE. The campaign promoted the page www.podeltesaouspech.sk, where businesses were invited to post their success thus competing for a billboard campaign paid by our company. Individual successes were subject to a vote on Facebook. The contest saw more than 700 participating businesses, the site was visited on a monthly basis by more than 100 thousand unique visitors and participating businesses managed to collect a total of 51,326 votes! Striving to get as many "points" as possible, several companies actively distributed information about the campaign. The three most successful companies received from T-Com and T-Mobile billboard campaigns, which helped them in their business.

The key campaign from the perspective of business results of the Company, was the joint Christmas campaign of both brands, T-Com and T-Mobile titled "Dédé and Kikuš". By linking the main character of the T-Com's summer campaign – Dédé with the main character of the T-Mobile's Christmas campaign from 2009 – Kikuš, we continued communicating the successful merger of the two brands. In the joint campaign, Dédé came to Slovakia based on an invitation from Kikuš and her family to experience a typical Slovak Christmas. The campaign consisted of various stories, which step by step introduced the products and benefits of both brands – the Podľa seba (It's up to you) price plans, Magio internet, mobile internet, Magio Sat, and a broad array of handsets and notebooks from EUR 1. Using the interactive platform www.bukekelavianoce.sk, internet users could also watch how Dédé enjoyed his stay in Slovakia and everything he tried. During the campaign, the page was visited by almost 200,000 unique visitors.

Sponsorship Activities

Magio Beach
In 2010, the unique annual Bratislava project Magio beach was organised for the 4th time; the beach was open from 25 May to 1 September 2010 and welcomed a total of 143 thousand visitors. The total area of 25,300 sq. metres offered a true summer atmosphere, with a touch of Californian beaches almost in the very centre of the capital city. The beach also reflected the spirit of football and during the World Cup became a favourite spot for watching mainly Slovak team matches, thanks to a Magio digital television. All beach visitors had constant access to information via a free-of-charge Magio internet Wi-Fi connection. The site also included a playground for children with 12 recreational equipment items and then a smaller playground for the smallest kids.

The venue also offered three beach volleyball courts and one beach football pitch. Among other sport activities enjoyed by visitors were badminton, table tennis and darts. The relaxation zone offered 400 deckchairs, 680 seats in two bars and a food stand with a selection of cold and hot meals. Also this year, Magio beach became a favourite place for active relaxation and a convenient meeting point on the Danube riverbank.

T-Mobile Music City

The unique music sponsorship project T-Mobile Music City continued with its third series in 2010, striving to get even closer to the expectations of the specific target group. Along with adding new Slovak cities to the list that hosted the event, T-Mobile Music City also changed its slogan to "The greatest party in your city", which was reflected also in the communication campaign concept. Concerts in four Slovak cities were again free of charge and attended by a total of 51,000 people.

The current need for the youth to be an active part in entertainment was given even more room in the 2010 T-Mobile Music City – young unknown authors created an official video for singer Rytmus, taking part in a competition for appearing onstage together with the band Hex or a contest for representing Slovakia under the auspices of T-Mobile Music City at the "Air Guitar" World Championships in Finland, and last but not least also featured their creative production on a CD compilation titled Music City vol.1.

The continuity of the unique music project linking the world of live music with the online environment was upheld also on the webpage www.t-musiccity.sk.

The online part of the T-Mobile Music City project successfully entered online social networks becoming a virtual "friend" of almost 41,000 users.

T-Com – Platinum Partner of the Slovak National Football Team and the Slovak Football Association

In 2010, the Company under the T-Com brand continued in further developing the partnership with the Slovak Football Association and the national team. Slovak football fans could enjoy all the extraordinary moments and achievements of the national football team together with the brands T-Com and Magio.

Our support to the Slovak football from the position of platinum partner to the Association and the national team is in line with the sponsorship strategy and our corporate responsibility principles. Slovak Telekom subscribes to supporting the life of the community, where football takes up an irreplaceable role. The partnership contract is valid until the end of July 2011.

Zoznam

External Communication

External communication of Zoznam.sk, an internet portal focused on the intensification of publicity management towards reinforcing the desired image of the company, e.g. also by strengthening managerial communication. The dominant topic of interviews with the senior management of the company with journalists was the “three screen” strategy thanks to which Zoznam started providing access for users to content also via mobile handsets and TV (Magio TV). Zoznam is becoming an official seller of advertising space on all three screens, thus creating room for generating new sources of future income. Owing to its activities in the field of mobile communication, Zoznam can also use the space for the sale of adverts not only online but also on mobile phone displays (PPC, banner advertisements and transaction business) and in future also on the TV screen.


DIGITAL Rozhovor

Zoznam preniká na TRI OBRAZOVKY

Tvrdia v rozhovore o budúcnosti dvojky na internetovom trhu jeho konateľ Pavol Balaj, výkonný riaditeľ a Martin Mác, obchodno-marketingový riaditeľ. Docieliť to chcú naplňaním novej stratégie v rámci skupiny Slovak Telekom a Zoznam.


BIZNIS

Zoznam: Chceme byť prví, no nie za každú cenu

Manažéri z portálovej dvojky hovoria o skúsenostiach po krize, vzťahoch s mediálkami a ambícii opäť ovládnuť internetový trh

In 2010, Zoznam.sk became the general partner of the two most prominent marketing conferences. In the spring, the company supported the mobile marketing conference thus declaring its ambitions to be successful not only in the conventional online environment but also on mobile phone displays. In the autumn, the company became the general partner of the most prestigious conference dedicated to internet marketing, then in its third year, named “Internet is sexy” and in this way promoted the spreading of innovative ideas in this area. Both conferences are organised under the auspices of the leading Slovak marketing journal Stratégie.

An important component of external communication in 2010 was support given to products, their innovation, redesign, modification and changes. As far as products are concerned, among the highlights of 2010 clearly was reaching one million real users, regularly visiting the news portal Topky.sk in April (1.053 million real users – RU, AIM monitor, April 2010).

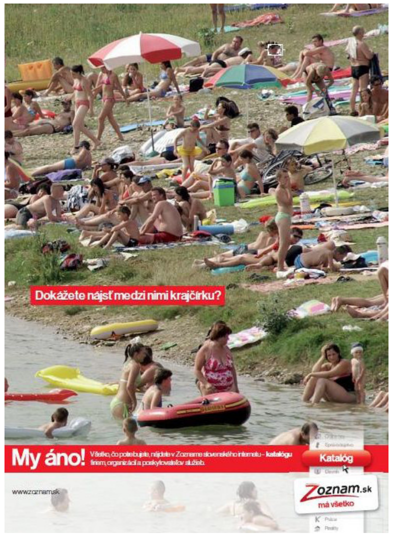
Marketing Communication and Media Partnerships

In early 2010, Zoznam.sk focused on marketing support for one of its key products in the form of a campaign aimed at increasing the awareness of Zoznam users concerning the catalogue and at emphasising its specific competitive advantage; the application is one of the largest Slovak business catalogues, offering more than 100 thousand records of corporations and institutions.

The key sports topic of the year was the 2010 Winter Olympics, which was also the central point of the sports magazine Športka campaign. An important marketing highlight and campaign of 2011 was yet again the annual poll titled Dievča leta (Girl of the Summer), which, thanks to constant innovations, enjoys the position of the summer event with the highest viewing rate on the internet among similar activities, leaving competing campaigns far behind. Moreover, Zoznam in the given year for the first time also tested the system of online activity support via mobile handsets serving as a tool for charging fees. A similar principle was used also with the contest Súboj fanyniek (Fan Combat) and with another summer competition for a motor scooter.

The internet portal Zoznam.sk launched several marketing and media partnerships. Cooperation with Fun Radio generated further media space for presenting the best there is on the news portal Topky. Users can make surfing Zoznam more pleasurable by listening to live-streaming of Fun Radio. Zoznam started a partnership with RadioFM on the basis of the promotion of content on portal Hudba.sk. Thanks to the year-round cooperation with Palace Cinemas, the largest and most visited cinema complex in Slovakia, Zoznam supports many popular projects such as Pánska jazda (A Stag Party), Baby club and Noc reklamožrútov (AdEaters Night) while the cooperation with the National Tennis Centre brought about media support to the sports events Ritro Slovak open and Fed Cup. Another interesting partnership was created with the popular shopping mall Aupark Bratislava, which thanks to Zoznam and Slovak Telekom could offer its visitors free Wi-Fi internet access.

The internet portal Zoznam.sk regularly supports a variety of outstanding film and theatre premieres, concerts and other event partnerships with the most prominent and anticipated cultural events in Slovakia. Zoznam.sk has been for several years a partner of Pohoda, the largest Slovak music festival as well as the long anticipated open air concert of David Guetta in Bratislava. Other music



projects included support to the concerts of Kiss, Tiesto, The Tarantinos, Japanese performers Yamato, Faithless, Leonard Cohen, the Richard Müller tour and the Placido Domingo tour.

Zoznam.sk also introduced an official internet poll Miss Internet, which is a part of the prestigious Miss Slovensko event organised by the Forza production house.

Zoznam.sk is also active in the field of movie premieres. In 2010 the company supported e.g. Robin Hood, Book of Eli, It's complicated, Salt, The Back-up Plan, Wall Street: Money Never Sleeps, Iron Man 2, Desert Flower, Sex and the City 2, Eat, Pray, Love, Román pro muže (Novel for Men), Ženy v pokušení (Women in Temptation), Toy Story 3 and many more.

PosAm

In its communication activities, PosAm primarily focuses on organizing several events for expert community that have already become a tradition. Furthermore, PosAm has been a partner to all important conferences in its field of business.

One of the most significant events of the past year was **AppDelivery Forum 2010**, where the company organized a technology workshop on latest items in application provision and IT virtualization. Visitors to the spring show could learn about the latest models from America, new strategies for the use of fresh "cuts" aiming at increased cost-saving were introduced.

PosAm organized an **"Open Day"** as part of the European eSkills Week 2010 campaign. The event was part of the "Týždeň spolupráce s praxou" (Practical Cooperation Week) and the Slovak Networking Academy Games (NAG) 2010 organized by the Faculty of Informatics and Information Technologies of the Slovak University of Technology.

In addition, PosAm and IBM Slovensko organized another year of the **Lotushow** conference at which new versions of Lotus Notes were presented to customers.

In 2010 PosAm also passed an important milestone in company business – 20th anniversary of incorporating of the company. Therefore, on 12 November 2010 this anniversary was celebrated at an event for customers called **PosAm Night 2010**. The event proved to be a success and PosAm thanked its partners and customers for their trust and exceptional business relations.

Corporate Responsibility

Corporate responsibility means much more than providing some occasional financial support to people in need. It is voluntary, but we feel it is an obligation of our company to do business and behave based on responsibility and ethics to all the parties involved and to the environment, thereby improving society. Corporate responsibility principles are part of the philosophy and strategy of companies of the Slovak Telekom Group. These are based on the principles of corporate responsibility of the parent company Deutsche Telekom that is approved by its Executive Management Board on an annual basis. They comply with the Group's employee Code of Conduct and define the behaviour towards community, employees, customers, suppliers, partners and the environment.
Slovak Telekom holds the three international certificates confirming it observes corporate responsibility principles. The Quality Management Certificate under EN ISO 9001:2008 acknowledges the compliance with European standards, the ability to respond to customer requirements and to improve service provision system, including the development of new products requested by customers. Compliance with the environment corporate responsibility standards was affirmed by environment management certificate EN ISO 14001:2004. In 2009, the company also fulfilled the requirements under ISO/IEC 27001:2005 concerning the information security management, which in fact assures customers about the high level of protection of their data.

The annual report summarizes the most important activities of 2010 with respect to corporate responsibility. The Corporate Responsibility Report 2010, to be distributed in the first half of 2011, deals in more detail with the aforementioned as well as other activities.

Slovak Telekom

Due to the integration with T-Mobile Slovensko, the portfolio of projects and areas supported via corporate responsibility and corporate philanthropy were extended. Individual projects are complementary, which enables the linking of either groups of people or organizations to which the aid is provided. Thanks to the common know-how and the established cooperation with various partner organizations, the aid through projects is more effective.

Nadačné fondy Slovak Telekom (Slovak Telekom Endowment Funds)

After the integration of Slovak Telekom and T-Mobile Slovensko in July, both Endowment Funds continued their operation. As an effective tool for activities in the area of corporate responsibility, the Nadačný fond Slovak Telekom pri Nadácii Intenda (Slovak Telekom Endowment Fund with the Intenda Foundation) supports contemporary art in various regions of Slovakia, innovations in education and assistance to health-impaired or socially disadvantaged groups and individuals. Activities focusing on the hearing-impaired community and community project support are financed from the Slovak Telekom Endowment Fund with the Pontis Foundation.

In 2010, the Slovak Telekom Endowment Fund with the Intenda Foundation supported 56 projects and 23 individual applicants with a total amount of EUR 227,958.97. Financial resources were distributed based on evaluations by independent expert commissions in four grant rounds and one invitation for talented, socially disadvantaged students. Funding was provided, for example, for the theatre performance "Dunajdráma" that for the first time brought together professional actors and homeless people – actors on the same stage, for an information centre that encourages socializing among senior citizens, e-learning for visually-impaired young people and teaching with modern technologies at the Stredná odborná škola veterinárna (Secondary Veterinary Vocational School) in Nitra.

The Nadačný fond Slovak Telekom (Slovak Telekom Endowment Fund) of the Nadácia Pontis (Pontis Foundation) donated the total sum of EUR 52,929 to the grant programme supporting hearing-impaired entrepreneurs starting their business under the title Hľadáme ďalší zmysel – PRE PODNIKANIE (Looking

For Another Sense – FOR BUSINESS). Out of this amount, direct support for the hearing-impaired in the form of financial contributions for starting their business was EUR 33,173. The rest was used for educating the hearing-impaired in business issues. Furthermore, the Endowment Fund supported the employee grant programme called “Pomáhame komunite” (We Help the community). In the programme’s sixth year, 142 projects submitted by Slovak Telekom employees were enlisted. A commission consisting of experts from various areas of the non-profit sector provided a grant for 80 employees in the total amount of EUR 100,000. The community support through the fund also includes the “Dom na polceste” (Shelter house at the halfway point) in Veľký Slavkov that provides assistance to young men after their institutionalized care has ended.

We understand the hearing-impaired
The hearing-impaired are a community Slovak Telekom has been supporting for more than nine years. Corporate responsibility activities aim at their better integration in the society. The year 2010 brought new forms of cooperation. Together with the Myslím (I am thinking) civic association, the company reminded the public about the **International Day of the Deaf** with a performance by hearing-impaired artists and other well-known personalities. In The 7th Sense Project, seven socialites assumed the roles of the hearing-impaired and had to cope with various every-day situations using only sign-language. The campaign was successful in the media and it brought the problems of the hearing-impaired to the attention of the public. 20 participants from the general public learnt the basics of sign

language at a free workshop last year. Furthermore, 33 sales people working in the Slovak Telekom Points of Sales learnt sign language and 12 sales people that had already had some knowledge of sign language improved their skills in an advanced sign-language course.

In addition, Slovak Telekom organized a marketing-skills course for hearing-impaired entrepreneurs, and for the fourth time it launched an educational grant programme for entrepreneurs that are starting their business – Hľadáme ďalší zmysel – PRE PODNIKANIE (We Looking For Another Sense – FOR BUSINESS). A new product was added to the already existing Paušál pre Nepočujúcich (the hearing-impaired plan) - Mobilný internet pre Nepočujúcich (mobile internet for the hearing-impaired) at favourable prices.

Free time – employees for a good cause
Slovak Telekom introduced two new activities to employee volunteering. It is one of the first companies in Slovakia to encourage its employees not only to donate blood but also to join the Národný register darcov kostnej drene (Slovak National Bone Marrow Donor Registry). The project under the title Malý veľký dar (Little Great Gift) has been organized twice. 87 people participated; in total, they donated 36.5 litres of blood and after meeting all registration requirements, 28 people joined the Národný register darcov kostnej drene (Slovak National Bone Marrow Donor Registry). Planting of 600 small spruce trees in the damaged areas of the Tatra Mountains with the assistance of Štátne lesy TANAP foresters was another successful project. Employees also participated in collections of clothing, medical supplies, books and toys for children, in the programme Hlavy

pomáhajú (Helping Heads) in which they assisted various organizations using their experience and knowledge. They also attended events such as Naša Bratislava (Our Bratislava), Naša Žilina (Our Žilina) and Deň dobrovoľníctva (Volunteering Day) whose objective is to engage employees of various companies in volunteering activities in their towns.

Furthermore, in internal collections, employees collected in total EUR 8,162 – as aid for people affected by the earthquake in Haiti in January, for a summer camp for children from the areas affected by the floods in June and the collection at the Christmas party was to support the Detský domov pre nepočujúce deti Maurícius (Orphanage for Hearing-Impaired Children).

Moreover, Slovak Telekom encourages the involvement of employees in helping the community through an employee grant programme called Pomáhame komunite (We help the community) that supports volunteering. Employees could recommend projects of non-governmental organizations from all over Slovakia. Thanks to this concept, 86 projects are to be implemented in 2011. Employees themselves prepared three volunteering activities on their own. They received support as part of the Dobrovoľnícky projekt zamestnancov (Employee Volunteering Project).

Floods in Slovakia – Company's Aid

In June, floods caused a lot of damage in Slovakia and Slovak Telekom decided to mitigate the impact in several ways. Damaged fixed line equipment, set-top-boxes and routers were replaced; two monthly service fees were waived to customers and they also received credit on their pre-paid cards. Nadačné fondy Slovak Telekom (Slovak Telekom Endowment Funds) donated EUR 30,000 in aid to flood victims and EUR 4,542 was collected by employees for a summer camp for children that had lost their homes due to the floods.

Promoting Donations via Technology

Slovak Telekom also uses communication technologies and know-how to promote donations in Slovakia. It strives to appeal to its customers and motivate them to help and provide financial support in selected public collections. It carefully chooses and controls its partners so that the money goes exactly where the customers wanted it to go. It supervises transparent and legal organization of collections. The company arranges the collections free of charge and always distributes 100 % of the collected funds. In 2010, the company organized 14 mobile collections and continued the operation of 3 free numbers used for community purposes – Národná linka pomoci obetiam obchodovania s ľuďmi (National Hotline for Victims of Human Trafficking), Národná linka pomoci obetiam domáceho a sociálneho násilia (National Hotline for Victims of Domestic and Social Violence) and Linka pre budúcnosť (Line for the Future).

Dobrý anjel (Good Angel) is one of the telecommunications collections that is to assist families of seriously ill children or parents; Slovak Telekom called the attention of its customers to the collection in May, as it declared May to be the Dobrý anjel month in T-Centres. Sales representatives wore the Dobrý anjel badges and informed customers about the new possibility to activate regular monthly contributions to the Dobrý anjel system upon the activation of services in T-Centres. The aim was to inform and encourage donations and associate the company services with the possibility to do the right thing. In October, Slovak

Telekom enhanced the aforementioned activity and enabled its customers to send contributions to Dobrý anjel also with points from the Max Club.

Teachers and students

At the end of the year, for the fifth time the company awarded the Cena Slovak Telekom (Slovak Telekom Award) to teachers who use information-communication technologies in teaching. An expert commission assessed their projects and out of the 161 registered ones, it selected the top 24 that received awards up to EUR 1,400 for the teachers and also for their schools. The enlisted works were added to the virtual library at the competition web page www.cenast.sk, where also other teachers can find some inspiration. After this year, the competition library comprises more than 800 works.

For students, Slovak Telekom organized the sixth year of the Telekom Day - an expert-student conference. This year, the main topic of the conference was integration of technologies. 80 students of Slovak technical universities and a few students from the partner university in Leipzig had the opportunity to learn about the latest information from the telecommunications sector directly from experts from Slovak Telekom. The company wants to enable students to combine the knowledge they have from their particular field of study with some practical insight. The conference also functions as a platform for networking

with company experts, if students need it while working on their diploma thesis, or as an opportunity to demonstrate one's skills while working on case studies and maybe even to get a job with the company.

Long-term Partnerships

Slovak Telekom continued its cooperation with the Divadlo Aréna Theater also in 2010 and under the T-Com brand, it was the general partner for productions "S brokovnicou na manžela" and "Arzenik a staré dámy". In sports, the "platinum" partnership from 2009 of Slovak Telekom under the T-Com brand with the Slovak Football Association and national football team continued. In 2010 the company maintained its support for the Horská záchranná služba (Mountain Rescue Service) that supervises the safety of tourists – it was the 12th year of their cooperation – and to non-profit organizations Úsmev ako dar (Smile as a Gift) and Nadácia pre deti Slovenska – Hodina deťom (Hour for Children) project.

Zoznam

The media space of the Zoznam.sk internet portal enables non-profit organizations to address many potential donors and partners and increase the awareness of the public of its activities. Zoznam informs about altruistic help provided to people, activities increasing the quality of life of disadvantaged groups and support given to projects focusing on improving the environment without any claims for financial compensation. Every year, the company endeavours to support as many non-profit and philanthropic projects as possible.

In 2010, Zoznam provided media support for: Unicef; Úsmev ako dar (Smile as a Gift); the Red Cross; the associations Človek v ohrození (People in Peril) Proti Prúdu (Against the Stream) and Life & Help Foundation; Klub detskej nádeje (Children's Hope Club), Liga proti rakovine (League Against Cancer), Detský hospice Plamienok (Plamienok Children's Hospice) and a civic association Želaj si (You May Wish).

PosAm

The new member of the Slovak Telekom Group has also been involved in corporate responsibility activities and provided financial support to activities of the Detské centrum (Children's Centre) in Ružomberok, Združenie pri detskom domove (Foster Home Association) in Piešťany, the non-profit organization "Plamienok" and the Slovenské hemofilické združenie (Slovak Haemophilia Society). Furthermore, the company organized a Christmas charity bazaar for its employees and the proceeds from this event were donated to Domov sociálnych služieb pre deti a dospelých (Institute of Social Services for Children and Adults) Kampino in Bratislava.

Furthermore, PosAm provides assistance through its activities in the educational sector – it became the partner of the "Týždeň IT zručnosti" (eSkills Week) in the Slovak Republic (the support includes awards, special events for secondary school pupils and university students on company premises) and the company is involved in expert activities at the Faculty of Informatics and Information Technologies of the Slovak University of Technology in Bratislava.

In 2010, in cooperation with AK Spartak Dubnica nad Váhom and the Ministry of Education of the Slovak Republic, PosAm organized the 11th year of the Slovak talent-search running contest for the young called "Hľadáme nového Jozefa Plachého" (We are looking for a new "Jozef Plachý"). The objective of the contest is to look for pupils talented in sports at elementary schools and 8-year grammar schools (for children aged 10-18). As for sports, the company also supported TJ Duslo Šaľa (Duslo Šaľa sports club).

IV. Financial Results

Slovak Telekom, a. s.

Consolidated Financial Statements

prepared in accordance with International Financial Reporting Standards (IFRS)
and Auditor's Report

for the year ended 31 December 2010

Contents

Consolidated Financial Statements. All amounts are in thousands of Euro, unless otherwise stated.

Consolidated Income Statement

for the year ended 31 December

	Notes	2010	2009
Fixed network and broadband revenue		398,102	417,985
Mobile communication revenue		492,542	545,247
Other		43,619	12,059
Total revenue	5	934,263	975,291
Staff costs	6	(153,512)	(142,205)
Material and equipment		(84,761)	(86,826)
Depreciation, amortisation and impairment losses	12,13,14	(244,698)	(255,470)
Interconnection and other fees to operators		(110,402)	(127,134)
Other operating income	8	15,737	18,582
Other operating costs	7	(208,264)	(205,719)
Operating profit		148,363	176,519
Financial income	9	4,540	8,138
Financial expense	10	(3,135)	(778)
Profit before tax		149,768	183,879
Taxation	11	(28,909)	(38,329)
Profit for the year		120,859	145,550

The consolidated financial statements on pages 74 to 123 were authorised for issue on behalf of the Board of Directors of the Group on 10 March 2011 by:

Ing. Miroslav Majoroš
Chairman of the Board of Directors
and Chief Executive Officer

Szabolcs Gáborjáni-Szabó
Member of the Board of Directors
and Chief Finance Officer

Person responsible for accounting:

Ing. Mária Rokusová
Senior Manager of Shared Service Center

Preparer of the financial statements:

Ing. Vladimíra Richterová
Manager of Reporting and Accounting Policies

Consolidated Financial Statements. All amounts are in thousands of Euro, unless otherwise stated.

Consolidated Statement of Comprehensive Income

for the year ended 31 December

	2010	2009
Profit for the year	120,859	145,550
Other comprehensive income		
Actuarial (losses) /gains on defined benefit plans	(616)	510
Deferred tax	117	(97)
Other comprehensive income for the year, net of tax	(499)	413
Total comprehensive income for the year, net of tax	120,360	145,963

Consolidated Financial Statements. All amounts are in thousands of Euro, unless otherwise stated.

Consolidated Statement of Financial Position

as at 31 December

	Notes	2010	2009
ASSETS			
Non-current assets			
Property and equipment	13	1,072,925	1,122,189
Intangible assets	14	402,403	417,264
Held-to-maturity investments	29	39,266	-
Prepaid expenses and other assets	19	22,576	23,973
		1,537,170	1,563,426
Current assets			
Inventories	17	13,733	11,768
Trade and other receivables	18	117,384	121,295
Prepaid expenses and other assets	19	16,483	12,512
Held-to-maturity investments	29	43,079	32,350
Income tax		3,584	2,422
Loans to Deutsche Telekom group	20, 27	85,000	80,000
Term deposits over 3 months		60,000	-
Cash and cash equivalents	21	169,828	218,225
		509,091	478,572
Assets held for sale	12	1,134	8,314
		510,225	486,886
TOTAL ASSETS		2,047,395	2,050,312

Consolidated Financial Statements. All amounts are in thousands of Euro, unless otherwise stated.

	Notes	2010	2009
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		864,113	864,113
Share premium		386,139	386,139
Statutory reserve fund		105,842	91,071
Retained earnings and other components of equity		227,664	240,273
Other reserves		82,355	97,090
		1,666,113	1,678,686
Non-current liabilities			
Provisions	25	14,060	9,619
Deferred tax	11	150,855	159,803
Other payables and deferred income	23	19,577	8,742
		184,492	178,164
Current liabilities			
Trade and other payables and deferred income	23	186,326	178,355
Provisions	25	10,133	9,195
Income tax		331	5,912
		196,790	193,462
Total liabilities		381,282	371,626
TOTAL EQUITY AND LIABILITIES		2,047,395	2,050,312

Consolidated Financial Statements. All amounts are in thousands of Euro, unless otherwise stated.

Consolidated Statement of Changes in Equity

for the year ended 31 December

	Notes	Issued capital	Share premium	Statutory reserve fund	Actuarial (losses)/ gains on defined benefit plans	Retained earnings	Other reserves	Total equity
Year ended 31 December 2009								
As at 1 January 2009		863,955	386,139	57,484	(206)	484,365	109,666	1,901,403
Profit for the year		-	-	-	-	145,550	-	145,550
Other comprehensive income		-	-	-	413	-	-	413
Total comprehensive income		-	-	-	413	145,550	-	145,963
Increase of share capital		158	-	(158)	-	-	-	-
Allocation to funds		-	-	33,745	-	(33,745)	-	-
Dividends	22	-	-	-	-	(368,680)	-	(368,680)
Release of revaluation reserve	22	-	-	-	-	12,576	(12,576)	-
At 31 December 2009		864,113	386,139	91,071	207	240,066	97,090	1,678,686
Year ended 31 December 2010								
As at 1 January 2010		864,113	386,139	91,071	207	240,066	97,090	1,678,686
Profit for the year		-	-	-	-	120,859	-	120,859
Other comprehensive income		-	-	-	(499)	-	-	(499)
Total comprehensive income		-	-	-	(499)	120,859	-	120,360
Allocation to funds		-	-	14,771	-	(14,771)	-	-
Dividends	22	-	-	-	-	(132,933)	-	(132,933)
Release of revaluation reserve	22	-	-	-	-	14,735	(14,735)	-
At 31 December 2010		864,113	386,139	105,842	(292)	227,956	82,355	1,666,113

Consolidated Financial Statements. All amounts are in thousands of Euro, unless otherwise stated.

Consolidated Statement of Cash Flows

for the year ended 31 December

	Notes	2010	2009
Profit for the year		120,859	145,550
Adjustments for:			
– Depreciation, amortisation and impairment losses	12, 13, 14	244,698	255,470
– Interest income, net		(2,343)	(5,232)
– Income tax expense	11	28,909	38,329
– Gain on disposal of property and equipment	8	(349)	(2,536)
– Other non-cash items		(1,196)	1,582
– Movements in provisions	25	3,144	862
Changes in working capital			
– Change in trade and other receivables		3,429	(10,490)
– Change in inventories		(2,180)	17,063
– Change in trade and other payables		144	(7,163)
Cash flows from operations		395,115	433,435
– Income taxes paid		(47,165)	(46,428)
Net cash flows from operating activities		347,950	387,007
Investing activities			
– Purchase of intangible assets, property and equipment		(144,820)	(167,913)
– Proceeds from disposal of intangible assets, property and equipment		1,451	6,462
– Acquisition of interest in subsidiary	4.5	(8,448)	-
– Acquisition of held-to-maturity investments		(105,286)	(25,985)
– Proceeds from disposal of held-to-maturity investments		56,211	58,339
– Disbursement of intragroup loan		(110,000)	(205,000)
– Repayment of borrowings		105,045	-
– Acquisition of short-term bank deposits		(60,000)	-
– Interest received		2,623	5,358
Net cash used in investing activities		(263,224)	(328,739)

Consolidated Financial Statements. All amounts are in thousands of Euro, unless otherwise stated.

	Notes	2010	2009
Financing activities			
– Dividends paid	22	(132,933)	(193,889)
– Repayment of financial liabilities		(133)	-
– Other charges paid		(57)	(29)
Net cash used in financing activities		(133,123)	(193,918)
Net increase in cash and cash equivalents		(48,397)	(135,650)
Cash and cash equivalents at 1 January	21	218,225	353,875
Cash and cash equivalents at 31 December	21	169,828	218,225

Significant non-cash transactions
In 2009, the Group declared and paid a dividend in the total amount of EUR 368,680 thousand. Part of the dividends paid; in amount of EUR 174,791 thousand was settled against the loan provided to Deutsche Telekom AG.

Consolidated Financial Statements. All amounts are in thousands of Euro, unless otherwise stated.

Notes to the Consolidated Financial Statements

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Consolidated Financial Statements. All amounts are in thousands of Euro, unless otherwise stated.

1. General information

These consolidated financial statements have been prepared for Slovak Telekom, a. s. ("the Company"or "the Group" or "Slovak Telekom") and its subsidiaries Zoznam, s. r. o. ("Zoznam"), Zoznam Mobile, s. r. o. ("Zoznam Mobile"), PosAm spol. s r. o. ("PosAm"), Telekom Sec, s. r. o. and the Institute of NGN (together "the Group").

Slovak Telekom was incorporated as a joint-stock company in the Slovak Republic on 1 April 1999. The business registration number (IČO) of the Company is 35 763 469 and the tax identification number (DIČ) is 202 027 3893. On 4 August 2000, Deutsche Telekom AG ("Deutsche Telekom" or "DT AG") gained 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 retains 49% of the shares of the Company through the Ministry of the Economy of the Slovak Republic (34%) and the National Property Fund of the Slovak Republic (15%).

In December 2009 the Board of Directors of the Company approved the concept of the integration of Slovak Telekom, a. s. with its 100% subsidiary T-Mobile Slovensko, a. s. ("T-Mobile") in line with the structural and organizational changes within the Deutsche Telekom Group. On 27 April 2010 the integration of the companies was approved by the General Meeting of the Company. As a result of this decision, T-Mobile was wound up without liquidation by means of an up-stream merger and all its assets, rights and obligations, including labour rights and duties, were transferred to Slovak Telekom as the legal successor as of 1 July 2010. The Company operates on the market under two brand names T-Com and T-Mobile.

On 29 January 2010 the Company acquired 51% of the share capital of PosAm.

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 and mobile telecommunication services in the Slovak Republic and owns and operates the majority of the telecommunications facilities therein. The Company provides national and international telephony services, broadband internet services, IPTV (Magio), and a wide range of other telecommunications services including data networks, value added services and leased lines. It also provides residential and business customers with products ranging from standard telephones to computer communications networks. The Company provides mobile telephony services in the 900 MHz and 1800 MHz frequency bands under the Global System for Mobile Communications ("GSM") standard and in the 2100 MHz frequency band under the Universal Mobile Telecommunications System standard ("UMTS"), hereinafter referred to as "mobile services". The Company use the 450 MHz frequency band to provide wireless broadband internet access under the Flash-OFDM standard and provides also Managed Data Network Services. The Company has also launched Fixed Wireless Access (FWA), utilizing the 26 GHz/28 GHz frequency bands.

The general license granted by the Telecommunications Office of the Slovak Republic for provision of mobile services under the GSM 900, GSM 1800 and NMT 450 MHz standards is valid up to 30 August 2011, at which point the Company is entitled to request renewal of the license for an additional period of up to ten years. The UMTS license is valid to 16 July 2022 when the Company will be entitled to request its prolongation.

The 26 GHz/28 GHz frequency licenses were granted by the Telecommunications Office of the Slovak Republic and are valid until December 2017 when the Company will be entitled to request their prolongation.

Zoznam and Zoznam Mobile operate the internet portal www.zoznam.sk and www.topky.sk and develop mobile entertainment content and software for mobile phones, and provide information, advertising and promotional services.

PosAm directs its business activities towards providing IT services, applications, infrastructure solutions and consulting to corporate customers.

Members of the Statutory Boards as at 31 December 2010
Board of Directors
- Chair: Ing. Miroslav Majoroš
- Vice-chair: Ing. Martin Mác
- Member: Szabolcs Gáborjáni-Szabó
- Member: Albert Pott
- Member: Dr. Ralph Rentschler
- Member: Ing. Miloš Šujanský M.B.A.
- Member: Ing. Róbert Sándor

Supervisory Board
- Chair: Andreas Hesse
- Vice-chair: Ing. Katarína Lešková
- Member: Ing. Július Maličký
- Member: Milan Brlej
- Member: Ing. Ján Vozár
- Member: Ing. Ján Hláčik
- Member: Ing. Miroslav Galamboš
- Member: Cornelia Elisabeth Sonntag
- Member: Dr. Hans-Peter Schultz

In 2010 a number of changes were entered in the Commercial Register: Mr. Jaroslav Volf, Mr. Ivan Doletina, Mr. Lutz Schade and Mr. Vladimír Zeman left the Board of Directors and were replaced by Mr. Juraj Beňo, Mr. Liberios Vokorokos, Mr. Miloš Šujanský and Mr. Albert Pott. Mr. Juraj Beňo and Mr. Liberios Vokorokos were replaced in December 2010 by Mr. Martin Mác and Mr. Róbert Sándor. In addition, Mr. Wolfgang Hauptmann, Mr. Pavol Dlhoš, Mr. Albert Matheis, Ms. Jiřina Perényiová, Mr. Norbert Schmidt and Mr. Anton Štefko left the Supervisory Board and were replaced by Mr. Andreas Hesse, Ms. Slávka Jánošíková, Mr. Vincent Straka, Mr. Jaroslav Volf, Ms. Cornelia Elisabeth Sonntag and Mr. Hans-Peter Schultz. Ms. Slávka Jánošíková, Mr. Vincent Straka and Mr. Jaroslav Volf were replaced in December 2010 by Ms. Katarína Lešková, Mr. Ján Vozár and Mr. Miroslav Galamboš.

Deutsche Telekom AG, with its registered office at Friedrich Ebert Allee 140, Bonn, Germany, is the parent of the group of which the Company is a member and for which the group financial statements are drawn up. The parent's consolidated financial statements are available at their registered office or at the District Court of Bonn HRB 6794, Germany.

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.

The Group's functional currency is the Euro ("EUR"), the consolidated financial statements are presented in Euros (EUR) and all values are rounded to the nearest thousands, except when otherwise indicated.

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

Statement of compliance
The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

Basis of consolidation
The 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 Company, using uniform accounting policies.

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.

All intra-group balances, transactions, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in other operating costs.

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 their fair value as at the date of acquisition. Land acquired prior to year 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.

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

The cost of subsequent enhancement is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Maintenance, repairs and minor renewals are charged to the income statement as incurred.

An item of property and equipment is derecognised 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 period the asset is derecognised. 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	8 to 30 years
Telephone exchanges and related equipment	2 to 20 years
Other fixed assets	13 months 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. Impairment losses are reversed if the reasons for recognising the original impairment loss no longer apply.

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. Property and equipment once classified as held for sale are not depreciated. 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 that would have been recognised 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 as the excess of the consideration transferred 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 amortised 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 amortisation and any accumulated impairment losses. With the exception of goodwill (see above), intangible assets have a finite useful life and are amortised using the straight-line method over the useful life.

The useful lives and the amortisation 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 amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

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

Costs that are directly associated with the development of identifiable and unique software products controlled by the Group and that will generate economic benefits exceeding costs beyond one year are recognised as intangible assets. 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. Cost also includes borrowing cost when those costs are incurred, if the recognition criteria are met.

Intangible assets are assessed for impairment whenever there is an indication that they may be impaired.

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

Customer contracts and related customer relationships	8 to 15 years
Licenses	10 to 20 years
Software, brand and other	2 to 16 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 in the period the asset is derecognised.

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. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The Group determines the recoverable amount of a cash-generating unit on the basis of its fair value less costs to sell. The fair value less costs to sell is determined by reference to discounted cash flow calculations. These discounted cash flow calculations are based on financial budgets approved by management, usually covering a five-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 bases the 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. The discount rate used reflects the risk specific to the cash-generating unit. Cash flows used reflect management assumptions and 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
Broadband and fixed network business	If triggering event occurs
Mobile business	If triggering event occurs
Online business (Zoznam, Zoznam Mobile)	Annually
IT solutions business (PosAm)	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 recognised for the cash-generating unit exceeds the carrying amount of the allocated goodwill, the additional amount of the impairment loss is recognised 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 fair value less cost to sell.

2.6 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on a weighted average basis. Net realisable 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 Financial assets

When financial assets are recognised, they are initially measured at fair value, plus, in the case of investments not held at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

Trade and other receivables

After initial recognition trade and other receivables, which generally have 14-60 days' terms, are measured at amortised cost less any allowance for doubtful accounts. The allowance recognised reflects the expected credit risk. The carrying amount of the asset is reduced to its recoverable amount through the use of an allowance account, and the amount of the loss is recognised in the income statement. Assets recoverable amount is based on estimated future cash flows. The estimated cash flows are based on the past experience of the collectibility of overdue receivables.

When the trade receivable for which an allowance was recognised becomes uncollectible or sold, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against costs in the income statement.
Amounts payable to and receivable from the same international operators are shown net in the statement of financial position when a right to set-off exists.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on assets held for trading are recognised in profit or loss.

During 2010 the Group did not hold any derivative instruments designated as hedges in accordance with IAS 39. The Group did, however, enter certain derivative transactions that, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting under the specific rules of IAS 39. Changes in the fair value of derivative instruments that do not qualify for hedge accounting under IAS 39 are recognised immediately in the income statement.

Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial recognition held-to-maturity investments are measured at amortised cost using the effective interest method. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate. Gains and losses are recognised in profit or loss when the investments are derecognised or impaired.

Cash and cash equivalents
Cash and cash equivalents in the statement of financial position comprise cash at banks and in hand, short-term deposits with an original maturity of three months or less from the date of acquisition and short term bonds and promissory notes with high liquidity.

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

Derecognition of financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:
- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset and has transferred substantially all the risks and rewards of the ownership of the asset.

2.8 Financial liabilities

Trade and other payables
Trade and other payables are initially measured at fair value. After initial recognition trade and other payables are measured at amortised cost using the effective interest method.

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Derivatives are also classified as

held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

During 2010 the Group did not hold any derivative instruments designated as hedges in accordance with IAS 39. The Group did, however, enter certain derivative transactions that, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting under the specific rules of IAS 39. Changes in the fair value of derivative instruments that do not qualify for hedge accounting under IAS 39 are recognised immediately in the income statement.

Derecognition of financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

2.9 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 fulfilment 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 recognised as an expense in the period in which the termination takes place.

2.10 Finance leases

The Group leases certain property and equipment. Leases of property and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

2.11 Prepaid expenses

The Group has easement rights to use and access technological equipment sited in properties owned by third parties. These easements, which arise on the disposal of properties where such technological equipment is sited, are presented within prepaid expenses in the statement of financial position. Easements are initially recognised at their net present value and then amortised over their expected duration.

2.12 Deferred income – Customer loyalty programme

The Group operates a customer loyalty programme. As part of the programme, the Group grants points to the participants, which can be redeemed in future periods for free or discounted goods or services. Revenue allocated to the points granted in sale transaction based on their fair value is deferred when points are granted to the customers. Revenue is recognised when the customers receive benefits from the programme.

2.13 Provisions

Provisions are recognised 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.

If the effect of the time-value of money is material, provisions are discounted using a risk-adjusted, pre-tax discount rate. Where discounting is used, the increase in the provision due to the passage of time is recognised as a financial expense.

Asset retirement obligations
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 recognised 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 capitalised 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.

Customer loyalty programme
Members of the loyalty programme can also collect loyalty points for certain behaviour (e.g. for arranging a direct debit facility, activation of electronic bill, etc.) that is in no way related to a sales transaction. Such loyalty points are outside the scope of IFRIC 13 and the Group recognises a provision in accordance with IAS 37 at the time when those points are granted. Amount of provision is measured at the amount necessary to settle expected liability to participants of the loyalty programme.

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

Employee benefit obligations
The Group provides retirement and other long-term benefits under both defined contribution and defined benefit plans.

In the case of defined contribution plans, the Group pays contributions to publicly or privately administered pension or severance insurance plans on a mandatory or contractual basis. Once the contributions have been paid, the Group has no further payment obligations. The contribution is 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.

The Group also provides defined retirement and jubilee benefits. These benefits are unfunded. The costs of providing benefits are determined separately for each benefit using the projected unit credit actuarial valuation method. The defined benefit liability comprises the present value of the defined benefit obligation less past service costs not yet recognised. The discount rate is determined by reference to market yields on government bonds. The currency and term of the government bonds are consistent with the currency and estimated term of the benefit obligations. The past service costs are recognised as an expense on a straight line basis over the average period until the benefits become vested. If the benefits become vested immediately following the introduction of, or changes to, a benefit plan, past service costs are recognised immediately.

Actuarial gains and losses arising from experience-based adjustments and changes in actuarial assumptions are recognised in the period in which they occur, within other comprehensive income for retirement benefits and within the income statement for jubilee benefits.

2.14 Revenue recognition

Revenue is recognised 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 measured reliably. Revenue for rendering services and customer equipment sales is shown net of value added tax and discounts.

The Group recognises revenue as follows:

Access fees and charges for incoming and outgoing telephone calls and other traffic are recognised in revenue in the period in which the services are 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. Customer acquisition costs incurred, to the extent of related activation fees, are recognised as assets and amortised over the same period.

Interconnect revenue generated from calls and other traffic that originate in other operators' networks is recognised as 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 recognised 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.

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 a customer is allocated based on each component's fair value. The revenue recognised is limited to the consideration received.

Revenue from sales of equipment is recognised when the equipment is delivered and installed at customer premises, if installation is significant part of the contract.

Revenue from the operating lease of equipment is recognised on a straight-line basis over the period of the lease.

2.15 Operating profit

Operating profit is defined as the result before income taxes and finance items. Finance items include interest income on short-term deposits and held-to-maturity investments, interest expense on borrowings and foreign exchange gains and losses.

2.16 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 translated at the functional currency rate of exchange ruling at the statement of financial position date.

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

2.17 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 statement of financial position date.

Deferred tax

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

Deferred tax liabilities are recognised for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of goodwill or 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.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax losses to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax losses can be utilised, except where the deferred tax asset 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 tax assets is reviewed at each statement of financial position 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 tax asset to be utilised.

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) Contractual penalties in amount of EUR 1,888 thousand is disclosed within other revenue (Note 5) in the 2009 comparatives. In the 2009 income statement this item was presented within other operating income.

b) Interest charged on overdue payments in amount of EUR 797 thousand is disclosed within other operating income (Note 8) in the 2009 comparatives. In the 2009 income statement this item was presented within mobile communication revenue.

c) Fees paid for short-term licenses on telecommunication services of EUR 3,600 thousand is disclosed within content fees (Note 7) in the 2009 comparatives. In the 2009 Note 6 this item was presented within other operating costs.

d) Security and legal and regulatory claims costs are disclosed within other operating costs (Note 7) in 2009 comparatives. In the 2009 Note 6 these items were presented separately.

e) In Note 27 numbers for 2009 Compensation of key management personnel were changed to be comparable with numbers for 2010.

2.19 Significant accounting judgements, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent liabilities reported at the end of the period and the reported amounts of revenues and expenses for that period. Actual results may differ from these estimates.

In the process of applying the Group's accounting policies, management has made the following judgements, estimates and assumptions which have the most significant effect on the amounts recognised in the financial statements:

Useful lives of non-current assets
The estimation of the useful lives of non-current assets is a matter of judgement based on the Group's experience with similar assets. As described in Notes 2.2 and 2.4, the Group reviews the estimated remaining useful lives of non-current assets annually. Management's estimates and judgements are inherently prone to inaccuracy for those assets for which no previous experience exists.

The Group reviewed useful lives of non-current assets during 2010 and changed accounting estimates where appropriate. The useful lives of air-conditioning, vehicles, IT equipment, furniture and security systems were either prolonged or shortened to reflect reassessed expected use of the assets. The financial effect of the change resulted in Fix segment in increase of depreciation of EUR 3,458 thousand in 2010 and EUR 1,348 thousand in future periods and in Mobile segment in increase of depreciation of EUR 1,342 thousand in 2010 and EUR 1,868 thousand in future periods.

Impairment of non-current assets
The Group has recorded impairment losses on property and equipment on the basis of management's expectations of future sales, the timing of such sales and expected selling price less cost to sell. Refer to Note 13 and Note 14 for details of the impairment of property and equipment and intangible assets.

Impairment of goodwill
The Group determines whether goodwill is impaired at least annually. This requires an estimation of the recoverable amount determined using a discounted cash flow method, which requires the Group to make estimate of the suitable risk-adjusted, pre-tax discount rate and the expected future cash flows from the cash-generating units. Specifically, the estimation of cash flows underlying the fair values of the mobile business considers the continuing investment in network infrastructure required to generate future revenue growth through the offering of new data products and services for which only limited historical information is available. Refer to Note 15 for details of the impairment testing of goodwill.

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, management bases its estimates on historical write-off experience, customer creditworthiness and changes in customer payment terms. Refer to Note 18 for details of the allowance for doubtful accounts.

Easements
On disposal of certain properties where technological equipment is sited and required for the Group's operations, the Group enters into agreements to obtain easement rights to continue to use and access this equipment for extended periods. Management has determined, based on an evaluation of the terms and conditions of these sales agreements, that these transactions give rise to an operating lease commitment as the Group does not retain the significant risks and rewards of ownership of the properties.

Asset retirement obligation
The Group enters into lease contracts for land and premises on which mobile communication network equipment is sited. The Group is committed by these contracts to dismantle the equipment and restore the land and premises to their original condition. Management's determination of the amount of the asset retirement obligation involves the following estimates:

a) an appropriate risk-adjusted, pre-tax discount rate commensurate with the Group's credit standing;

b) the amounts necessary to settle future obligations.

Provisions and contingent liabilities
As set out in Notes 25 and 28, the Group is a participant in several lawsuits and regulatory proceedings. When considering the recognition of a provision, management judges the probability of future outflows of economic resources and estimates the amount needed to settle the possible or probable obligation. Such judgements and estimates are continually reassessed taking into consideration experience with similar cases.

Fair value of financial instruments
The fair value of financial instruments which are not traded in an active market is determined by using quoted forward exchange rates for similar instruments, bank quotes available at the statement of financial position date and valuation techniques.

Nominal values for trade and other receivables and payables with maturities of less than one year are assumed to approximate their fair values due to their short-term nature.

Fair value of customer loyalty programme points
The Group estimates the fair value of points granted under the customer loyalty programme by applying statistical techniques. Inputs to the model include making assumptions about expected redemption rates, fair value of products/services that will be redeemed in the future and customers' preferences.

2.20 Adoption of IFRS during the year

Standards, interpretations and amendments to published standards effective for the Group's accounting period beginning on 1 January 2010 which are relevant to the Group's operations

- IFRS 3 Business Combinations (Revised), effective for annual periods beginning on or after 1 July 2009

  The revised standard increases the number of transactions to which it must be applied, by including combinations of mutual entities and combinations without consideration (e.g. dual listed shares). Other significant changes relate to choice of measuring the non-controlling interest either at their fair value or at their proportionate interest in the acquiree's net assets; in step acquisitions, previously held interests are remeasured to fair value at the date of the subsequent acquisition and this value is included in calculating goodwill; contingent consideration is formally defined as additional consideration by the acquirer to the former owners and is measured at fair value at the date of acquisition; acquisition-related costs are expensed through profit or loss at the time when such costs are incurred and other. **The Group does not have any non-controlling interest. When acquiring subsidiary PosAm, contingent consideration from put & call options was calculated at fair value at the date of acquisition of EUR 9,889 thousand and will be reviewed annually. All acquisition-related costs were expensed when incurred.**

- IAS 27 Consolidated and Separate Financial Statements (Amendment), effective for periods beginning on or after 1 July 2009

  The amended standard determined that changes in ownership interests of a subsidiary that do not result in loss of control will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss; losses incurred by the subsidiary will be allocated between the controlling and non-controlling interests even if the losses exceed the non-controlling equity investment in the subsidiary. Upon loss of control of a subsidiary, any retained interest will be remeasured to fair value and this will impact the gain or loss recognised on disposal. **The Group did not undertake any transactions resulting in loss of control in its subsidiaries and it does not have any non-controlling interest.**

- IAS 39 Financial Instruments: Recognition and Measurement (Amendment – Eligible Hedged Items), effective for annual periods beginning on after 1 July 2009

  The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item in an effective hedge relationship. These must be separately identifiable components of the financial instrument and the changes in cash flows or fair value of the entire financial instrument arising from changes in the designated risks and portions must be reliably measurable. **The Group does not apply any effective hedge accounting that fulfills criteria of IAS 39 for effective hedges; therefore this amendment is not relevant.**

- Improvements to IFRS issued April 2009, effective for annual periods beginning on or after 1 January 2010

  In April 2009 the IASB issued the second omnibus edition of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments results in changes to accounting policies but did not have any impact on the financial position or performance of the Group:
  - IFRS 2 Share-based Payment
  - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
  - IFRS 8 Operating Segments
  - IAS 1 Presentation of Financial Statements
  - IAS 7 Statement of Cash Flows
  - IAS 17 Leases
  - IAS 18 Revenue
  - IAS 36 Impairment of Assets
  - IAS 38 Intangible Assets
  - IAS 39 Financial Instruments: Recognition and Measurement
  - IFRIC 9 Reassessment of Embedded Derivatives
  - IFRIC 16 Hedges of a net Investment in a Foreign Operation

Standards, interpretations and amendments to published standards effective for the Group's accounting period beginning on 1 January 2010 which are not relevant to the Group's operations

- IFRS 1 First-time Adoption of International Financial Reporting Standards (Amendments – Additional Exemptions for First-time Adopters), effective for annual periods beginning on or after 1 January 2010
- IFRS 2 Share-based Payment Arrangements, effective for annual periods beginning on or after 1 January 2010
- IFRIC 17 Distributions of Non-cash Assets to Owners, effective for annual periods beginning on or after 1 July 2009

Standards, interpretations and amendments to published standards that have been published, are not effective for accounting periods starting on 1 January 2010 and which the Group has not early adopted

- IFRS 1 First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, effective for annual periods beginning on or after 1 July 2010
- IFRS 7 Financial Instruments: Disclosures (Amendment – Transfer of Financial Assets), effective for annual periods beginning on or after 1 January 2013
- IFRS 9 Financial Instruments, effective for annual periods beginning on or after 1 January 2013

- IAS 12 Income taxes (Amendment – Tax recovery of underlying assets), effective for annual periods beginning on or after 1 January 2013
- IAS 24 Related Party Disclosures (Revised), effective for annual periods beginning on or after 1 January 2011
- IAS 32 Financial Instruments: Presentation (Amendments – Classification of Rights Issues), effective for annual periods beginning on or after 1 February 2010
- IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment), effective for annual periods beginning on or after 1 January 2011
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments, effective for annual periods beginning on or after 1 July 2010
- Improvements to IFRS issued May 2010 (The third omnibus edition), effective for annual periods beginning on or after 1 July 2010

The future implications of standards, interpretations and amendments that are relevant to the Group are being continuously evaluated and will be applied in accordance with the requirements if applicable.

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 minimise potential adverse effects on the performance of the Group.

The Group's financial instruments include cash and cash equivalents, short-term deposits, held-to-maturity investments and loans. The main purpose of these instruments is to manage the liquidity of the Group.

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

The Group enters into derivative transactions. The purpose is to manage the foreign currency risk arising from the Group's operations. The Group does not perform speculative trading with the derivative instruments.

The main risks arising from the Group's financial instruments are market risk, credit risk and liquidity risk. The Treasury and Taxes Department is responsible for financial risk management, in accordance with guidelines approved by the Board of Directors and the DT AG Treasury Department. The Treasury and Taxes Department works in association with the Group's operating units and with the DT AG Treasury Department. There are policies in place to cover specific areas such as market risk, credit risk, liquidity risk, the investment of excess funds and the use of derivative financial instruments.

3.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

3.1.1 Foreign currency risk

The Group is exposed to transactional foreign currency risk arising from international interconnectivity. In addition, the Group is exposed to risks arising from capital and operational expenditures denominated in foreign currencies.

The Group requires all of its operating units to use forward currency contracts, currency swaps or spot-market trading to eliminate the exposure towards foreign currency risk. The hedging financial instruments must be in the same currency as the hedged item. It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximize hedge effectiveness.

Short-term cash forecasts are prepared on a rolling basis to quantify the Group's expected exposure. The Group's risk management policy requires the hedging of every cash flow denominated in foreign currency exceeding the equivalent of EUR 50 thousand.

In 2009 and 2010, the Group entered into currency forward contracts to hedge its foreign currency exposure arising on its firm commitments for future capital and operating expenditures. The forward contracts are expected to mature on the date of the anticipated foreign currency cash expenditures. At 31 December 2010, the Group has hedged 100% of its foreign currency purchases for which firm commitments existed at the statement of financial position date.

The Group's main exposure is to changes in USD and CZK foreign exchange rates, with immaterial risk related to financial assets and financial liabilities denominated in other foreign currencies. The previous Group's exposure to changes in the EUR exchange rate was ended with effect from 1 January 2009 when the euro became the official currency of the Slovak Republic.

The following table details the sensitivity of the Group's profit before tax and equity to a 5% increase/decrease in the EUR against relevant foreign currency (USD and CZK), with all other variables held as constant. The 5% change represents management's assessment of the reasonably possible change in foreign exchange rates and is used when reporting foreign currency risk internally in line with treasury policies.

		2010	2009
Profit before tax	Depreciation of EUR by 5%	108	(44)
	Appreciation of EUR by 5%	(97)	40
Equity	Depreciation of EUR by 5%	108	(44)
	Appreciation of EUR by 5%	(97)	40

3.1.2 Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has entered into a master agreement on upstream loans with DT AG in October 2008.

The Group's exposure to the risk of changes in market interest rates relates mainly to the Group's held–to-maturity investments. The Group seeks to optimise its exposure towards interest rate risk using a mix of fixed–rate and floating–rate securities. At the end of 2010, the securities portfolio consists of fixed-rate bonds and treasury bills.

The sensitivity of held-to-maturity investments to changes in interest rates is provided in Note 29.

3.2 Credit risk

The Group is exposed to credit risk from its operating activities and certain financing activities. 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 and securities issuers on the basis of the credit ratings assigned to these institutions by reputable rating agencies and these limits are reviewed on a regular basis.

The Group establishes an allowance for impairment that represents its estimate of losses incurred in respect of trade and other receivables and, historically, actual losses have not exceeded management's expectations. Impairment losses are recognized to cover both individually significant credit risk exposures, and a collective loss component for assets that are assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables includes the Group's past experience of collecting payments, as well as changes in the internal and external ratings of customers.

In respect of financial assets, which comprise cash and cash equivalents, short-term deposits, held-to-maturity investments, derivative financial instruments, loans and trade receivables, the Group's exposure to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these financial assets. No significant agreements reducing the maximum exposure to credit risk had been concluded as at 31 December 2010.

The Group assesses its financial investments at each reporting date to determine whether there is any objective evidence that they are impaired. A financial investment is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that investment. Significant financial investments are tested for impairment on an individual basis. The remaining financial investments are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss in respect of a financial investment is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. The reversal of the impairment loss is recognized in profit or loss.

The quantitative disclosure of the Group's exposure to credit risk is set out in Note 18.

3.3 Liquidity risk

The Group's liquidity risk mitigation principles define the level of cash and 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 and held-to-maturity investments with the cost of financing available on credit facilities, with the objective of holding predetermined minimum amounts of cash and cash equivalents and credit facilities available on demand.

The table summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

At 31 December 2010	On demand	Less than 3 months	3 to 12 months	Over 1 year	Total
Trade and other payables	5,505	106,561	15	-	112,081

At 31 December 2009	On demand	Less than 3 months	3 to 12 months	Over 1 year	Total
Trade and other payables	7,585	93,906	41	-	101,532

3.4 Capital risk management

The Group manages its capital to ensure that it will be able to support its business activities on an ongoing basis, while maximizing the return to its shareholders through the optimization of its capital structure. It takes into consideration any applicable guidelines of the majority shareholder. No changes were made in the objectives, policies or processes in 2010.

The capital structure of the Group consists of equity attributable to shareholders, comprising issued capital, reserves, retained earnings and other components of equity (Note 22).

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4. Business combinations

4.1 Subsidiary acquired

On 29 January 2010, the Group acquired the majority of the voting shares and obtained control of PosAm, spol. s r. o., an unlisted company with its registered seat at Odborárska 21, 831 02 Bratislava, Slovak Republic, which specializes in IT services, own software development and hardware and software licences sale. The business combination was accounted for as if the acquirer had obtained a 100% interest in the acquiree. The consideration transferred includes the present value of the liability related to acquisition of 49% on PosAm under the put&call options.

The Group acquired PosAm because it extends the range of services that can be offered to its clients. As a result of the acquisition, the Group is expected to increase its presence in the information and communications technology markets.

4.2 Consideration transferred

	29 January 2010
Cash	10,733
Contingent consideration (i)	2,235
Put option - liability (ii)	9,889
Total	22,857

(i) The amount of the earn-out payment is conditional on the financial performance of PosAm. The amount will be payable only if PosAm meets the given performance target for the financial periods 2010 and 2011 cumulatively.

The Group has assessed the nature of the contingent consideration and recognised a provision, as the Group incurred a contractual obligation to deliver cash to the seller. Consequently, the Group re-measured the provision at the reporting date. The value of the provision at the year-end was changed and amounts to EUR 2,378 thousand (Note 25).

(ii) Following the acquisition of a 51% interest in PosAm, Slovak Telekom obtained control over PosAm. Slovak Telekom and the former owner of PosAm also agreed on put & call options which, if triggered, may result in the transfer of the residual 49% equity interest in PosAm. In relation to the options, Slovak Telekom opted for an accounting treatment based on the interpretation that Slovak Telekom effectively acquired a 100% equity interest in PosAm.

The liability of EUR 9,889 thousand is the present value of a consideration related to acquisition of the residual 49%. The present value is % ownership of interest x average adjusted EBITDA for two financial periods x progressive coefficient, and discounted. The Group re-measured the liability at the reporting date. The value of the liability at the year-end was changed and amounts to EUR 11,282 thousand (Note 23).

Acquisition-related costs of EUR 155 thousand have been fully excluded from the consideration transferred and have been recognized as an expense in the current and prior years, under Other operating costs in the income statement.

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4.3 Assets acquired and liabilities assumed at the date of acquisition

The table summarizes the amount of assets acquired and liabilities assumed recognized as at the acquisition date together with identifiable intangible assets:

	Net book value (before goodwill calculation)	Identifiable intangible assets	Fair value of net assets
Non-current assets	**1,534**	**-**	**1,534**
Current assets	**6,185**	**-**	**6,185**
Cash	2,285	-	2,285
Receivables	3,325	-	3,325
Inventory	215	-	215
Other assets and accruals	360	-	360
Newly recognized intangible assets	**-**	**14,200**	**14,200**
Brand	-	900	900
Customer relationships	-	11,700	11,700
Order backlog	-	1,600	1,600
Liabilities	**2,732**	**-**	**2,732**
Payables	2,004	-	2,004
Provisions and other liabilities	297	-	297
Income tax and other taxes	286	-	286
Accruals	145	-	145
Deferred tax	**-**	**2,698**	**2,698**
NET ASSETS	**4,987**	**11,502**	**16,489**

The fair value of receivables acquired is EUR 3,325 thousand, of which trade receivables amounts to EUR 3,314 thousand. The gross contractual amount for trade receivables due is EUR 3,427 thousand, of which EUR 113 thousand is expected to be non-collectable.

The fair value of the identifiable intangible assets acquired is EUR 11,502 thousand net of the deferred tax liability of EUR 2,698 thousand. The most significant amount of EUR 11,700 thousand belongs to a Customer Relationships intangible asset. For the purposes of purchase price allocation, the intangible asset was interpreted as relations with big and medium-sized customers only. The key drivers were attrition rates, value of the revenues per customer and EBITDA margins of the customer base.

Identifiable intangible assets have the following useful lives assigned: brand: 4 years, customer relationships: 15 years and order backlog: 1 year.

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4.4 Goodwill arising on acquisition

	29 January 2010
Consideration transferred	22,857
Less: fair value of identifiable net assets acquired	(16,489)
Goodwill arising on acquisition	6,368

Goodwill arose in the acquisition of PosAm because the consideration paid for the combination effectively included amounts in relation to the benefit from the expected synergies, revenue growth, future market development and the trained workforce of PosAm. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill recognized is expected to be deductible for income tax purposes.

4.5 Net cash outflow on acquisition of subsidiary

	29 January 2010
Consideration paid in cash	10,733
Less: cash and cash equivalent balances acquired	(2,285)
	8,448

4.6 Impact of acquisition on the results of the Group

From the date of acquisition, PosAm has contributed EUR 26,753 thousand of revenue (net of intercompany revenues) and EUR 2,798 thousand to the net profit before tax of the Group (net of intercompany revenues and expenses). If the combination had taken place at the beginning of the year, revenue of the Group would have been EUR 935,696 thousand and the profit before tax of the Group would have been EUR 150,030 thousand.

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5. Revenue

	2010	2009
Fixed network communication revenue	237,226	260,730
Wholesale revenue	63,731	64,675
IP / Internet revenue	97,145	92,580
Total fixed network and broadband revenue	398,102	417,985
Mobile communication revenue	492,542	545,247
Other revenue	43,619	12,059
Total revenue	934,263	975,291

6. Staff costs

	2010	2009
Wages and salaries	123,198	114,071
Social security contributions	30,314	28,134
	153,512	142,205

	2010	2009
Number of employees (including expatriates) at period end	4,995	4,996

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7. Other operating costs

	2010	2009
Repairs and maintenance	21,081	20,101
Outsourced services	14,841	15,031
Marketing	32,542	34,379
Energy	14,545	17,069
Postal services	6,685	7,147
Rentals and leases	20,489	19,968
IT services	13,344	13,363
Dealers' commissions	23,388	25,931
Material sold	3,862	6,521
Business trips and training	2,475	1,992
Frequency fees	6,474	5,841
Content fees	9,831	8,099
Consultancy	9,201	8,002
Bad debts expenses	5,288	5,614
Customer solutions	11,348	8,067
Other	29,755	28,195
Own work capitalised	(16,885)	(19,601)
	208,264	205,719

8. Other operating income

	2010	2009
Gain on disposal of property and equipment, net	349	2,536
Income from material sold	5,780	7,420
Reversal of impairment of assets held for sale (Note 12, 13)	4,147	699
Other	5,461	7,927
	15,737	18,582

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9. Financial income

	2010	2009
Reversal of impairment of held-to-maturity investments	664	2,656
Interest on short-term deposits	622	1,350
Interest on intragroup loans	1,458	1,466
Interest on held-to-maturity investments	938	1,659
Net gain on financial instruments held for trading	7	125
Other	851	882
	4,540	8,138

10. Financial expense

	2010	2009
Unwinding of put option liability	1,393	-
Amounts paid to former owner of PosAm	440	-
Change in fair value of long-term provision	143	-
Employee benefits - interest cost	93	117
Foreign exchange losses, net	474	100
Interest cost on restoration obligations	460	435
Bank charges and other financial expense	132	126
	3,135	778

Foreign exchange losses, net in 2009 also comprise foreign exchange losses in amount of EUR 10 thousand, which arose from translation of opening balances of assets and liabilities from Slovak Crowns to Euro in relation to the adoption of the Euro as the official currency in Slovakia and the functional currency of the Group as of 1 January 2009.

11. Taxation

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

	2010	2009
Current tax expense	40,410	46,223
Deferred tax income	(11,501)	(7,894)
Income tax expense reported in the income statement	28,909	38,329

Consolidated Financial Statements. All amounts are in thousands of Euro, unless otherwise stated.

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

	2010	2009
Profit before income tax	149,768	183,879
Income tax calculated at the statutory rate of 19% (2009: 19%)	28,456	34,937
Effect of income not taxable and expenses not tax deductible:		
– (Release)/creation of legal and regulatory provisions	(107)	150
– Other tax non-deductible items, net	1,779	2,581
Tax (recovery) / charge in respect of prior years	(1,219)	661
Income tax at the effective tax rate of 19% (2009: 21%)	28,909	38,329

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

	Statement of Financial Position		Income Statement	
	2010	2009	2010	2009
Difference between carrying and tax value of fixed assets	(163,099)	(171,381)	(10,952)	(6,415)
Allowance for held-to-maturity investments	1,922	2,048	126	504
Staff cost accruals	1,496	1,656	160	763
Allowance for bad debts	3,591	3,214	(376)	(1,698)
Termination benefits	752	667	(86)	(66)
Other	4,483	3,993	(373)	(982)
	(150,855)	(159,803)	(11,501)	(7,894)

Difference between carrying and tax value of fixed assets for 2010 includes deferred tax liabilities of PosAm as of the acquisition date in amount of EUR 2,670 thousand, of which EUR 2,698 thousand is from purchase price allocation.

Deferred tax assets (liabilities) are reflected in the statement of financial position as follows:

	2010	2009
Deferred tax assets	13,438	11,578
Deferred tax liabilities	(164,293)	(171,381)
	(150,855)	(159,803)

Consolidated Financial Statements. All amounts are in thousands of Euro, unless otherwise stated.

12. Assets held for sale

	Land, buildings and related equipment	
	2010	**2009**
At 1 January	8,314	12,265
Net transfer (to) / from property and equipment	(7,254)	32
Impairment charge	-	(501)
Reversal of impairment charge (Note 8)	470	699
Assets sold	(396)	(4,181)
At 31 December	1,134	8,314

Assets held for sale at 31 December 2010 comprise buildings and land which are to be sold within 1 year.

The Group transferred during 2010 assets of EUR 7,297 thousand to property and equipment. These assets ceased to meet the criteria to be classified as held for sale as the Group does not expect the sale to be completed within one year. The financial impact of the transaction was EUR 298 thousand.

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13. Property and equipment

	Land and buildings	Duct, cable and other outside plant	Telephone exchanges and related equipment	Radio and transmission equipment	Other	Construction in progress includ-ing advances	Total
Cost							
At 1 January 2010	157,151	956,388	1,262,188	292,335	255,511	40,280	2,963,853
Additions	3,435	16,731	19,439	4,935	28,114	33,410	106,064
Acquisitions through business combinations	3	-	-	-	825	-	828
Disposals	(1,619)	(4,994)	(42,915)	(7,946)	(12,066)	(747)	(70,287)
Transfers	1,633	943	10,015	4,827	4,679	(22,097)	-
Transfer to and from assets held for sale	16,825	689	212	-	451	-	18,177
At 31 December 2010	177,428	969,757	1,248,939	294,151	277,514	50,846	3,018,635
Depreciation							
At 1 January 2010	(54,967)	(391,785)	(1,056,218)	(192,165)	(145,715)	(814)	(1,841,664)
Depreciation charge	(8,790)	(30,899)	(58,397)	(30,998)	(32,891)	-	(161,975)
Impairment charge	3,189	(212)	(1,365)	-	(1,668)	(653)	(709)
Disposals	1,388	4,967	42,818	7,946	11,705	738	69,562
Transfers	-	-	-	-	(4)	4	-
Transfer to and from assets held for sale	(10,283)	(236)	(86)	-	(319)	-	(10,924)
At 31 December 2010	(69,463)	(418,165)	(1,073,248)	(215,217)	(168,892)	(725)	(1,945,710)
Net book value as of 31 December 2010	107,965	551,592	175,691	78,934	108,622	50,121	1,072,925

The impairment charge relates mainly to the technological equipment which is considered to be obsolete, has no future use and will be liquidated. Impairment charge of Land and buildings of EUR 3,189 thousand contains reversal of impairment of EUR 3,677 thousand due to adjustment of estimated market values of the assets (Note 8).

Property and equipment, excluding motor vehicles, is insured to a limit of EUR 25,000 thousand (2009: EUR 25,000 thousand). Motor vehicles are insured to a limit of EUR 2,500 thousand (2009: EUR 2,500 thousand) for damage on health and expenses related to death and EUR 664 thousand for damage caused by destroyed, seized or lost items, lost profits.

Consolidated Financial Statements. All amounts are in thousands of Euro, unless otherwise stated.

	Land and buildings	Duct, cable and other outside plant	Telephone exchanges and related equipment	Radio and transmission equipment	Other	Construction in progress includ-ing advances	Total
Cost							
At 1 January 2009	151,393	954,821	1,267,637	286,015	242,713	45,766	2,948,345
Additions	6,162	27,377	30,402	10,692	18,521	22,339	115,493
Disposals	(918)	(28,997)	(48,822)	(7,149)	(13,915)	(117)	(99,918)
Transfers	581	3,187	12,971	2,777	8,192	(27,708)	-
Transfer to assets held for sale	(67)	-	-	-	-	-	(67)
At 31 December 2009	157,151	956,388	1,262,188	292,335	255,511	40,280	2,963,853
Depreciation							
At 1 January 2009	(47,141)	(390,080)	(1,033,494)	(172,587)	(131,685)	(477)	(1,775,464)
Depreciation charge	(7,677)	(29,749)	(70,959)	(26,706)	(26,763)	-	(161,854)
Impairment charge	(611)	(106)	(1,517)	-	(826)	(373)	(3,433)
Disposals	434	28,997	48,830	7,128	13,663	-	99,052
Transfers	(7)	(847)	922	-	(104)	36	-
Transfer to assets held for sale	35	-	-	-	-	-	35
At 31 December 2009	(54,967)	(391,785)	(1,056,218)	(192,165)	(145,715)	(814)	(1,841,664)
Net book value as of 31 December 2009	102,184	564,603	205,970	100,170	109,796	39,466	1,122,189

The impairment charge relates mainly to the technological equipment which is considered to be obsolete, has no future use and will be liquidated.

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14. Intangible assets

	Customer contracts and related customer relationships	Licenses	Goodwill	Software	Other	Total
Cost						
At 1 January 2010	406,978	85,612	77,981	379,643	26,630	976,844
Additions	-	-	-	16,157	25,506	41,663
Additions from internal developments	-	-	-	568	-	568
Acquisitions through business combinations	11,700	-	6,368	529	2,648	21,245
Disposals	-	-	-	(6,444)	(1)	(6,445)
Transfers	-	-	-	13,178	(13,178)	-
At 31 December 2010	418,678	85,612	84,349	403,631	41,605	1,033,875
Depreciation						
At 1 January 2010	(178,654)	(44,118)	-	(331,294)	(5,514)	(559,580)
Amortization charge	(36,312)	(4,908)	-	(35,139)	(1,760)	(78,119)
Impairment charge	-	-	-	(218)	-	(218)
Disposals	-	-	-	6,444	1	6,445
Transfers	-	-	-	-	-	-
At 31 December 2010	(214,966)	(49,026)	-	(360,207)	(7,273)	(631,472)
Net book value as of 31 December 2010	203,712	36,586	84,349	43,424	34,332	402,403

Net book value of the category Other includes Intangible assets in progress of EUR 32,698 thousand (2009: EUR 13,999 thousand).

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	Customer contracts and related customer relationships	Licenses	Goodwill	Software	Other	Total
Cost						
At 1 January 2009	406,978	85,098	77,981	434,549	25,771	1,030,377
Additions	-	9	-	21,393	17,794	39,196
Disposals	-	-	-	(92,729)	-	(92,729)
Transfers	-	505	-	16,430	(16,935)	-
At 31 December 2009	406,978	85,612	77,981	379,643	26,630	976,844
Depreciation						
At 1 January 2009	(142,924)	(39,254)	-	(375,926)	(4,473)	(562,577)
Amortization charge	(35,730)	(4,864)	-	(48,047)	(1,041)	(89,682)
Impairment charge	-	-	-	-	-	-
Disposals	-	-	-	92,679	-	92,679
Transfers	-	-	-	-	-	-
At 31 December 2009	(178,654)	(44,118)	-	(331,294)	(5,514)	(559,580)
Net book value as of 31 December 2009	228,324	41,494	77,981	48,349	21,116	417,264

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15. Impairment of goodwill

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

	2010	2009
T-Mobile	73,313	73,313
PosAm	6,368	-
Zoznam and Zoznam Mobile	4,668	4,668
	84,349	77,981

T-Mobile
The recoverable amount of the cash-generating unit was determined using cash flow projections based on the ten-year financial plans that have been approved by management and are also used for internal purposes. Cash flows beyond the ten-year period are extrapolated using a 2% growth rate (2009: 2.3%) and a discount rate of 7.62% (2009: 7.44%). This growth rate does not exceed the long-term average growth rate for the market in which the cash-generating unit operates. Further key assumptions on which management has based its determination of the recoverable amount of the cash-generating unit include the development of revenue, customer acquisition and retention costs, churn rates, capital expenditures and market share. The recoverable amount of the cash-generating unit was determined to exceed its carrying value. Management believes that any reasonably possible change in the key assumptions on which the cash-generating unit's recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

PosAm
The recoverable amount of the cash-generating unit was determined using cash flow projections based on the five-year financial plans that have been approved by management and are also used for internal purposes. Cash flows beyond the five-year period are extrapolated using a 3% growth rate and a discount rate of 8.68%. This growth rate does not exceed the long-term average growth rate for the market in which the cash-generating unit operates. Further key assumptions on which management has based its determination of the recoverable amount of the cash-generating unit include the development of revenue from sale of hardware and software licenses, IT services and software solutions, customer acquisition and retention costs, capital expenditure and market share. The recoverable amount of the cash-generating unit was determined to exceed its carrying value. Management believes that any reasonably possible change in the key assumptions on which the cash-generating unit's recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

Zoznam and Zoznam Mobile
The recoverable amount of the cash-generating unit was determined using cash flow projections covering a five-year period. The planning horizon reflects the assumptions for short- to mid-term market developments. Cash flows beyond the five-year period are extrapolated using a 4% growth rate (2009: 4%) and a discount rate of 10.35% (2009: 9.02%). This growth rate does not exceed the long-term average growth rate for the market in which the cash-generating unit operates. Further key assumptions on which management has based its determination of the recoverable amount of the cash-generating unit include the development of revenue from banner advertising, priority listing, e-commerce, application development and /or new products launch, customer acquisition and retention costs, capital expenditure and market share. The recoverable amount of the cash-generating unit was determined to exceed its carrying value. Management believes that any reasonably possible change in the key assumptions on which the cash-generating unit's recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

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16. Principal subsidiary undertakings

At 31 December 2010, the Group had the following subsidiaries:

Name	Registered office	Activity	Profit 2010	Profit 2009	Net assets 2010	Net assets 2009
PosAm, spol. s r. o.	Odborárska 21, 831 02 Bratislava	IT services, applications and business solutions	2,787	-	6,875	-
Zoznam, s.r.o.	Viedenská cesta 3-7, 851 01 Bratislava	Internet portal	(326)	(339)	1,648	2,424
Zoznam Mobile, s.r.o.	Viedenská cesta 3-7, 851 01 Bratislava	Mobile content provider	171	188	309	1,887
Telekom Sec, s.r.o.	Kukučínova 52, 831 03 Bratislava,	Security services	(4)	(7)	6	10
Institute of Next Generation Networks	Poštová 1, 010 08 Žilina	NGN technology research and development	(30)	(110)	(281)	(251)

Until 30 June 2010, the Group had the following subsidiary:

Name	Registered office	Activity	Profit 2010	Profit 2009	Net assets 2010	Net assets 2009
T-Mobile Slovensko, a.s.	Vajnorská 100/A, 831 03 Bratislava	Wireless phone and data services	-	113,041	-	296,646

All subsidiaries are incorporated in the Slovak Republic and, except for the Institute of Next Generation Networks and PosAm, are wholly owned by Slovak Telekom. Shares in the subsidiaries are not traded on a public market.

On 29 January 2010, Slovak Telekom acquired 51% equity interest in PosAm. The final purchase price will be determined by the amount of contingent consideration (earn-out), depending on the EBITDA level for 2010–2011, that will be paid in 2012. For the price for acquisition of the remaining 49% of share capital of PosAm refer to Note 4.2.

On 11 February 2010, the Board of Directors of Slovak Telekom approved the liquidation of the Institute of Next Generation Networks. The liquidation process will be completed in 2011.

In December 2009, the Board of Directors of Slovak Telekom approved the concept of the integration of Slovak Telekom with its 100% subsidiary T-Mobile in line with the structural and organizational changes within the Deutsche Telekom Group. On 27 April 2010, the integration of the companies was approved by the General Meeting of the Company. As a result of this decision, T-Mobile was wound up without liquidation by means of an up-stream merger and all its assets, rights and obligations, including labour rights and duties, were transferred to Slovak Telekom as the legal successor as of 1 July 2010.

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17. Inventories

	2010	2009
Cables, wires and spare parts	3,967	4,674
Phones, accessories for mobile communication	5,996	6,405
Other inventory including goods for resale	3,770	689
	13,733	11,768

The amount of write-down of inventories recognised as an expense is EUR 470 thousand (2009: EUR 1,652 thousand) which is recognised in cost of material and equipment.

18. Trade and other receivables

	2010	2009
Trade receivables from third parties	105,302	111,965
Trade receivables from related parties (Note 27)	4,356	3,851
Other receivables from third parties	7,218	5,151
Other receivables from related parties (Note 27)	508	328
	117,384	121,295

Trade receivables are net of an allowance of EUR 27,284 thousand (2009: EUR 25,396 thousand).

In 2010 the Group sold uncollectible receivables with nominal value of EUR 1,193 thousand (2009: EUR 2,177 thousand) to a company specializing in the collection of overdue receivables for EUR 172 thousand (2009: EUR 314 thousand) and the related allowance was released.

Movements in the allowance for impaired trade receivables from third parties were as follows:

	2010	2009
At 1 January	25,519	24,225
Charge for the year	7,473	7,382
Utilised	(3,574)	(3,395)
Reversed	(2,134)	(2,816)
At 31 December	27,284	25,396

No significant individually impaired trade receivables were included in the provision for impairment losses.

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As at 31 December, the ageing structure of receivables is as follows:

	Total	Neither past due nor impaired	< 30 days	31-90 days	91-180 days	181–365 days	> 365 days
2010	109,658	94,842	6,632	2,307	1,515	1,891	2,471
2009	115,816	96,966	6,639	2,547	3,021	5,409	1,234

Receivables that are past due as at the statement of financial position date but not impaired are from creditworthy customers who have a good track record with the Group and, based on historical default rates, management believes that no additional impairment allowance is necessary.

19. Prepaid expenses and other assets

	2010	2009
Non-current		
Deferred activation fees	6,238	7,320
Easement	9,849	9,967
Accrued revenues	3,764	3,401
Other	2,725	3,285
	22,576	23,973
Current		
Deferred activation fees	4,514	4,674
Accrued revenues	8,185	1,732
Other	3,784	6,106
	16,483	12,512

20. Loans to Deutsche Telekom group

The Group provided the following loans to Deutsche Telekom group:

	Interest rate	Maturity	2010	2009
Deutsche Telekom AG	1.395%	14. 1. 2011	20,000	-
Deutsche Telekom AG	1.250%	3. 3. 2011	20,000	-
Deutsche Telekom AG	1.395%	14. 1. 2011	45,000	-
Deutsche Telekom AG	1.375%	15. 1. 2010	-	40,000
Deutsche Telekom AG	1.220%	12. 5. 2010	-	40,000
Short–term loans (Note 27)			85,000	80,000

The loans granted to Deutsche Telekom AG are not secured.

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21. Cash and cash equivalents

	2010	2009
Cash	169,828	218,225
	169,828	218,225

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term investments are made for varying periods between one day and three months and earn interest at the respective rates.

22. Shareholders' equity

On 1 April 1999 Slovak Telekom became a joint-stock company with 20,717,920 ordinary shares authorized, issued and fully paid at a par value of EUR 33.2 per share. Deutsche Telekom AG acquired 51% of Slovak Telekom through a privatization agreement, effective from 4 August 2000, by which the Company issued 5,309,580 new ordinary shares with a par value of EUR 33.2 per share. The shares were issued at a premium totaling EUR 386,139 thousand. All the newly issued shares were subscribed and fully paid by Deutsche Telekom AG. The privatization transaction also involved the purchase by Deutsche Telekom AG of 7,964,445 existing ordinary shares from the Slovak Government.

As of 31 December 2010 Slovak Telekom had authorized and issued 26,027,500 ordinary shares (2009: 26,027,500) with a par value of EUR 33.2 per share. All the shares issued were fully subscribed. Due to the change in the functional currency of the Company from the Slovak Crown to EUR as at 1 January 2009, there was an increase in the share capital of the Company of EUR 158 thousand. The statutory reserve fund of the Company was used to cover the increase in share capital.

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. On 27 April 2010 the General Meeting approved distribution of the prior year profit and resolved to transfer 10% of the prior year statutory profits to the reserve fund, with the remainder of the 2009 profit being retained.

In 2010, the Company declared and paid a dividend of EUR 5.11 per share (2009: EUR 14.17 per share). On the basis of this proposed appropriation, total dividends of EUR 132,933 thousand (2009: EUR 368,680 thousand) were paid in May and July 2010. Approval of the 2010 profit distribution will take place at the Annual General Meeting scheduled for 28 April 2011.

On the Group's acquisition of a controlling interest in T-Mobile at 31 December 2004, the assets and liabilities of T-Mobile were re-measured 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 EUR 158,625 thousand was included in other reserves. As the assets acquired are subject to depreciation, an amount of EUR 14,735 thousand (2009: EUR 12,576 thousand) was released from the reserve in 2010.

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23. Trade and other payables and deferred income

	2010	2009
Non-current		
Deferred income	8,128	8,223
Other	11,449	519
	19,577	8,742
Current		
Trade payables to third parties	107,340	98,050
Trade payables to related parties (Note 27)	4,741	3,482
Amounts due to employees	19,850	18,337
Deferred income	40,231	46,223
Other	14,164	12,263
	186,326	178,355

Non-current other payables include liability of EUR 11,282 thousand, which is the present value of a consideration related to acquisition of the residual 49% in PosAm (Note 4.2).

24. Obligations under finance lease

The Group leases vehicles and diesel aggregate under finance leases. Net book value of vehicles is EUR 364 thousand and net book value of the aggregate is EUR 24 thousand as at 31 December 2010. The average lease term of vehicles and diesel aggregate is 3.5 and 4 years respectively. The Group has options to purchase the equipment for a nominal amount at the end of the lease terms. The Group's obligations under finance leases are secured by the lessor's title to the leased assets.

Interest rates underlying all obligations under finance leases are fixed at respective contract dates 1.1% per annum.

	2010
Minimum lease payments	
Not later than one year	134
Later than one year and not later than three years	162
Later than three and not later than five years	5
Later than five years	-
	301

	2010
Current	134
Non-current	167
	301

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25. Provisions

	Legal and regulatory claims	Asset retirement obligation	Loyalty programme	Termination benefits	Earn-out	Employee benefits	Other	Total
At 1 January 2010	2,269	7,850	2,018	3,509	-	1,358	1,810	18,814
Arising during the year	234	126	2,667	4,066	2,235	1,536	5,986	16,850
Reversals	(84)	-	(299)	(448)	-	-	(174)	(1,005)
Utilised	(662)	-	(1,937)	(3,167)	-	(75)	(5,321)	(11,162)
Interest impact	-	460	-	-	143	93	-	696
At 31 December 2010	1,757	8,436	2,449	3,960	2,378	2,912	2,301	24,193
Non-current	-	8,436	-	-	2,378	2,912	334	14,060
Current	1,757	-	2,449	3,960	-	-	1,967	10,133
	1,757	8,436	2,449	3,960	2,378	2,912	2,301	24,193

Legal and regulatory claims

The provision includes amounts in respect of legal and regulatory claims brought against the Group. It is the opinion of the Group's management that the outcome of these legal and regulatory claims will not result in any significant loss beyond the amounts provided at 31 December 2010.

Asset retirement obligation

The Group is subject to obligations for dismantlement, removal and restoration of assets associated with its cell site operating leases. Cell site lease agreements may contain clauses requiring restoration of the leased site at the end of the lease term, creating an asset retirement obligation.

Loyalty programme

The loyalty programmes provision primarily covers the cost of equipment, accessories and gifts provided in exchange for points awarded to participants of the loyalty programme. The provision is recognized on the basis of previous experience with the use of these points by loyalty programme participants.

Termination benefits

The restructuring of the Group's operations resulted in headcount reduction of 235 employees in 2010. The Group expects a further headcount reduction of 280 employees in 2011 as a result of an ongoing restructuring program. A detailed formal plan that specifies the number of staff involved and their locations and functions was defined and authorised by management and announced to the trade unions. The amount of compensation to be paid for terminating employment was calculated by reference to the collective agreement. The termination payments are expected to be paid within twelve months of the statement of financial position date and are recognized in full in the current period.

Earn-out

The earn-out provision relates to contingent consideration as part of consideration transferred when the Group obtained control of PosAm. The amount of the earn-out payment is conditional on the financial performance of PosAm. The amount will be payable only if PosAm meets the given performance target for the financial periods 2010 and 2011 cumulatively. The amount of earn-out provision is re-measured at each reporting date. Amount of EUR 2,235 thousand was included in consideration transferred at PosAm acquisition (Note 4.2).

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Retirement and jubilee benefits

The Group provides benefit plans for all its employees. Provisions are created for benefits payable in respect of retirement and jubilee benefits. One-off retirement benefits are dependent on employees fulfilling the required conditions to enter retirement and jubilee benefits are dependent on the number of years of service with the Group. The benefit entitlements are determined from the respective employee's monthly remuneration or as a defined particular amount.

	Retirement benefits	Jubilee	Total
Present value of the defined benefit obligation			
At 1 January 2010	2,193	176	2,369
Interest cost	86	7	93
Current service cost	481	15	496
Past service costs due to plan amendments	5,205	26	5,231
Benefits paid	(53)	(22)	(75)
Actuarial gains	616	73	689
At 31 December 2010	8,528	275	8,803
Past service cost not recognised in the statement of financial position	(5,891)	-	(5,891)
Liability recognised in the statement of financial position at 31 December 2010	2,637	275	2,912

Past service costs in amount of EUR 4,173 thousand relate to amended terms of retirement benefit. Past service costs in amount of EUR 1,058 thousand relate to former T-Mobile employees, to which Slovak Telekom's Collective agreement applies since merger.

Principal actuarial assumptions, except for interest costs, used in determining the defined benefit obligation include the discount rate of 3.238%. Interest costs include the discount rate as at the beginning of the accounting period of 3.931 %. Average retirement age is 62 years. The expected growth of nominal wages is 1.575%.

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26. Commitments

The Group's non-current assets purchase commitments were as follows at 31 December:

	2010	2009
Non-current assets expenditures contracted for but not completed due within one year	11,143	31,633
Non-current assets expenditures contracted for but not completed due between one and five years	-	9,626
	11,143	41,259

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

	2010	2009
Operating commitments due within one year	30,173	38,276
Operating commitments due between one and five years	31,682	38,135
Operating commitments due after five years	8,207	11,993
	70,062	88,404

The Group has commitments under operating leases and other purchase contracts with terms ranging from one to ten years relating primarily to the outsourcing of real estate management, rental of office space, retail space and motor vehicles, and provision of satellite digital TV.

27. Related party transactions

	Receivables		Payables		Sales		Purchases	
	2010	2009	2010	2009	2010	2009	2010	2009
Deutsche Telekom AG	85,861	80,688	2,348	895	2,734	2,881	3,657	4,058
T-Home Group	674	8	496	124	1,236	760	2,769	506
T-Systems Group	668	382	965	517	4,295	4,147	2,382	3,602
T-Mobile Group	2,661	3,101	932	1,946	6,134	8,172	7,719	7,815
Other	-	-	-	-	-	-	-	14
	89,864	84,179	4,741	3,482	14,399	15,960	16,527	15,995

The Group conducts business with its parent, Deutsche Telekom AG and its subsidiaries, associates and joint ventures. Business transactions relate mainly to telephone calls and other traffic in the related parties' networks. Other transactions include data services, management, consultancy and other services. The Group purchased property and equipment in amount of EUR 940 thousand (2009: EUR 1,453 thousand).

The Group granted Deutsche Telekom AG a short-term loan of EUR 85,000 thousand (2009: EUR 80,000 thousand). Interest related to this loan amounted to EUR 1,458 thousand (2009: EUR 1,466 thousand) (Note 20).

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Compensation of key management personnel

	2010	2009
Management remuneration	2,212	2,310

The key management personnel, 20 in number (2009: 19) include members of the Board of Directors, Supervisory Board, members of Executive Management Board of Slovak Telekom.

28. Contingencies

Legal and regulatory cases

On 8 April 2009, the European Commission ("Commission") opened proceedings against Slovak Telekom. The Commission is investigating whether the Group may have engaged in conduct obstructing competition in the Slovak Republic, in violation of Article 102 of the Treaty on the Functioning of the European Union ("TFEU") in particular whether the Group has engaged in refusal to supply and/or in margin squeeze conduct to the detriment of its competitors on the broadband market.

The investigation has proceeded through a series of questionnaires, to which the Group responded in a timely and professional manner. The Group has also adopted a pro-active approach to the investigation by submitting four "issues papers", substantiating why the Commission should not intervene in the present case. These papers were accompanied by reports from two independent experts, adding to their credibility.

On 28 January 2011, the Group met with the Commission to discuss the current status of the Commission's investigation. The Commission now has to decide whether to issue a Statement of Objections setting out its preliminary view. If proven, the allegations against the Group could lead to the Commission finding that the Group was in infringement of Article 102 TFEU and imposing a fine on the Group. In proceedings of this kind, fines are generally calculated on the basis of the company's prior year turnover. However, in the event that the Commission is able to establish so-called "parental liability" due to the "influence" that Deutsche Telekom allegedly exerts on the Group, this could be understood as the turnover of the group and could attain 10% of overall turnover. The Group's legal position is that the likelihood of the Commission issuing a ruling of infringement and imposing a fine is possible rather than probable and a provision has not been made in these financial statements. Should, however, the Commission decide to adopt an infringement decision, it is not possible at this preliminary stage of the case to predict the level of fine to which Slovak Telekom would be exposed.

On 27 September 2007 the Regional Court in Bratislava overturned the second stage decision of the Anti-Monopoly Office ("AMO"), which had imposed on the Group a penalty of EUR 29,377 thousand for not allowing competitors to access local lines (unbundling of local loops) and thus abusing its dominant position. The Group had provided in full against this penalty in 2005, but this provision was released after the Regional Court found in favour of the Group. Subsequently AMO initiated a new proceeding against the Group on this same issue and on 20 May 2009 the Group received from AMO the second stage decision imposing a penalty of EUR 29,377 thousand. The Group appealed against this decision on Regional court on 10 June 2009. On 23 June 2009 the Group received the Regional Court Resolution about enforceability postponement of AMO decision in this case. The Council of the AMO confirmed the first stage decision .The AMO did not substantially add any reasoning in comparison with a previous decision in 2007. Furthermore, the AMO Council did not take into account the binding legal opinion of the Regional Court Bratislava dated in 2007 by which all previous decisions in this case were cancelled. At the hearing on 3 December 2010 the Regional Court Bratislava decided and adopted the Group' arguments and released resolution by which was the Group's claim accepted and AMO resolution was cancelled in full. The written Court resolution was delivered to the Group by 21 December 2010. AMO appealed against the judgment of the Regional Court within period prescribed by law and the Supreme Court will decide in second stage court proceeding. As management believes that it is possible rather than probable that this case will result in an obligation to pay the penalty, a provision has not been made in these financial statements.

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The Group has been charged by AMO with abusing its dominant position and violating competition law by price squeeze and tying practices. AMO imposed a penalty of EUR 17,453 thousand when issuing its second stage decision on 9 April 2009. The Group appealed against this decision on Regional court on 8 June 2009. On 22 June 2009 the Group received the Regional Court Resolution about enforceability postponement of AMO decision in this case. The first hearing of Regional Court on 12 May 2010 ended without final decision. Another argumentation and evidence are submitted to the Court, the date of proceeding is not defined yet. As management believes that it is possible rather than probable that this case will result in an obligation to pay the penalty, a provision has not been made in these financial statements.

On 10 September 2007 the Regional Court in Bratislava overturned the second stage decision of AMO, which had imposed on the Group a penalty of EUR 2,656 thousand for abusing its dominant position in tendering for complex telecommunication project. The Group had provided in full against this penalty in 2006, but this provision was released after the Regional Court found in favour of the Group. Subsequently AMO initiated a new proceeding against the Group on this same issue and on 4 May 2009 AMO issued its second stage decision imposing a penalty of EUR 2,423 thousand. The Group appealed against this decision on Regional court on 10 June 2009. On 23 June 2009 the Group received the Regional Court Resolution about enforceability postponement of AMO decision in this case. The first hearing of Regional Court on 25 May 2010 ended without final decision. The Court adjourned further hearing on 13 July 2010. The court postponed a decision on 10 August 2010. At the hearing the Regional Court Bratislava decided in favour of Slovak Telekom and AMO decision was cancelled in full. On 29 September 2010, AMO gave an appeal against decision of the Regional Court. Statement of the Group to the appeal was submitted to the Court on 19 October 2010. As management believes that it is possible rather than probable that this case will result in an obligation to pay a penalty, a provision has not been made in these financial statements.

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 25).

29. Financial assets and liabilities

Fair values

	Carrying amount		Fair value	
	2010	**2009**	**2010**	**2009**
Financial assets				
Non-current				
– Held-to-maturity investments	39,266	-	39,344	-
Current				
– Cash and cash equivalents	169,828	218,225	169,828	218,225
– Held-to-maturity investments	43,079	32,350	43,110	32,451
– Term deposit over 3 months	60,000	-	60,000	-
– Trade receivables	109,681	115,827	109,681	115,827
Financial liabilities				
Current				
– Trade payables	112,081	101,532	112,081	101,532

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Cash and cash equivalents, derivative financial instruments held for trading, trade receivables and trade payables have short maturities and their carrying amounts at the reporting date approximate their fair values.

Term deposit relates to bank deposit with maturity 6 months.

The fair value of the held-to-maturity investments amounted to EUR 82,454 thousand at 31 December 2010 (2009: EUR 32,451 thousand). This value was established based on market values provided by banks who act as depositors of the securities.

If the interest rates of the held-to-maturity investments were 15 basis points higher/20 basis points lower and all other variables were held constant, the Group's profit for the year ended 31 December 2010 and equity at 31 December 2010 would increase/decrease by EUR 64 thousand/EUR 73 thousand (2009: EUR 32 thousand/EUR 42 thousand).

Forward foreign exchange contracts
As of 31 December 2010 the Group was a party to five foreign exchange forward contracts with maturity of one to five months to hedge anticipated future foreign currency expenditure in USD. While these contracts may provide effective economic hedges under the Company's risk management policies, they do not qualify for hedge accounting under the specific rules of IAS 39 and were, therefore, classified as held for trading upon initial recognition.

The net gain from the change in the fair value of derivative instruments was recognised in the income statement in the amount of EUR 9 thousand, net of tax of EUR 2 thousand for the year ended 31 December 2010 (2009: net gain of EUR 117 thousand, net of tax of EUR 28 thousand).

30. Audit fees

In 2010 the Group obtained from the audit company Ernst & Young statutory audit services in amount of EUR 424 thousand (2009: EUR 357 thousand), other assurance services in amount of EUR 189 thousand (2009: EUR 160 thousand) and other services in amount of EUR 43 thousand (2009: EUR 84 thousand).

31. Events after the reporting period

In 2011 conclusion of existence of Institute of Next Generation Networks is expected to be finished. Retained loss at 31 December 2010 was EUR 281 thousand.

There were no events, which have occurred subsequent to the year-end, which would have a material impact on the financial statements at 31 December 2010.

Independent Auditor's Report

Ernst & Young Slovakia, spol. s r.o.
Hodžovo námestie 1A
811 06 Bratislava
Slovenská republika
Tel: +421 2 3333 9111
Fax: +421 2 3333 9222
www.ey.com/sk

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Slovak Telekom, a.s. and its subsidiaries ('the Group'), which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and presentation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 give a true and fair view of the financial position of the Group as at 31 December 2010, 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.

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT

Spoločnosť zo skupiny Ernst & Young Global Limited
Ernst & Young Slovakia, spol. s r.o., IČO: 35 840 463, zapísaná v Obchodnom
registri Okresného súdu Bratislava I, oddiel: Sro, vložka číslo: 27004/B
a v zozname audítorov vedenom Slovenskou komorou audítorov pod č. 257.

Consolidated Financial Statements. All amounts are in thousands of Euro, unless otherwise stated.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 28 to the consolidated financial statements. The Company is being investigated by the European Commission whether it may have engaged in conduct that forecloses competition in the Slovak Republic in violation of Article 102 of the Treaty on the Functioning of the EU. The ultimate outcome of the matter cannot presently be determined, and no provision for any liability that may result has been made in the consolidated financial statements. Our opinion is not qualified in respect of this matter.

10 March 2011
Bratislava, Slovak Republic

Ernst & Young

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

Ing. Peter Matejička
SKAU Licence No. 909

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT

Slovak Telekom, a. s.

Separate Financial Statements

prepared in accordance with International Financial Reporting Standards (IFRS)
and Auditor's Report

for the year ended 31 December 2010

Contents

Separate Financial Statements. All amounts are in thousands of Euro, unless otherwise stated

Income Statement

for the year ended 31 December

	Notes	2010	2009
Revenue	5	669,468	445,983
Staff costs	6	(120,033)	(94,853)
Material and equipment		(50,816)	(24,733)
Depreciation, amortisation and impairment losses	12,13,14	(178,891)	(120,974)
Interconnection and other fees to operators		(84,341)	(63,170)
Other operating income	8	13,733	13,455
Other operating costs	7	(158,044)	(101,978)
Operating profit		91,076	53,730
Financial income	9	215,030	106,337
Financial expense	10	(1,402)	(244)
Profit before tax		304,704	159,823
Taxation	11	(18,590)	(12,119)
Profit for the year		286,114	147,704

The financial statements on pages 128 to 177 were authorised for issue on behalf of the Board of Directors of the Company on 10 March 2011 by:

Ing. Miroslav Majoroš
Chairman of the Board of Directors
and Chief Executive Officer

Szabolcs Gáborjáni-Szabó
Member of the Board of Directors
and Chief Finance Officer

Person responsible for accounting:

Ing. Mária Rokusová
Senior Manager of Shared Service Center

Preparer of the financial statements:

Ing. Vladimíra Richterová
Manager of Reporting and Accounting Policies

Separate Financial Statements. All amounts are in thousands of Euro, unless otherwise stated

Statement of Comprehensive Income

for the year ended 31 December

	2010	2009
Profit for the year	286,114	147,704
Other comprehensive income		
Actuarial (losses) /gains on defined benefit plans	(616)	510
Deferred tax	117	(97)
Other comprehensive income for the year, net of tax	(499)	413
Total comprehensive income for the year, net of tax	285,615	148,117

Separate Financial Statements. All amounts are in thousands of Euro, unless otherwise stated

Statement of Financial Position

as at 31 December

	Notes	2010	2009
ASSETS			
Non-current assets			
Property and equipment	13	1,071,849	898,424
Intangible assets	14	377,341	28,488
Investments in subsidiaries	16	19,231	385,209
Held-to-maturity investments	28	39,266	-
Loans	20	-	299
Prepaid expenses and other assets	19	22,417	22,345
		1,530,104	1,334,765
Current assets			
Inventories	17	13,645	5,308
Trade and other receivables	18	113,284	154,717
Prepaid expenses and other assets	19	16,018	9,634
Held-to-maturity investments	28	43,079	31,023
Loans	20	85,000	80,000
Term deposit over 3 months	28	60,000	-
Income tax		3,584	2,149
Cash and cash equivalents	21	163,298	75,312
		497,908	358,143
Assets held for sale	12	1,134	8,314
		499,042	366,457
TOTAL ASSETS		2,029,146	1,701,222
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		864,113	864,113
Share premium		386,139	386,139
Statutory reserve fund		130,629	91,071
Retained earnings and other components of equity		286,189	148,117
		1,667,070	1,489,440

Separate Financial Statements. All amounts are in thousands of Euro, unless otherwise stated

	Notes	2010	2009
Non-current liabilities			
Provisions	24	14,060	1,513
Deferred tax	11	148,634	106,965
Deferred income	23	8,023	7,512
		170,717	115,990
Current liabilities			
Trade and other payables and deferred income	23	181,592	89,789
Provisions	24	9,767	6,003
		191,359	95,792
Total liabilities		362,076	211,782
TOTAL EQUITY AND LIABILITIES		2,029,146	1,701,222

Separate Financial Statements. All amounts are in thousands of Euro, unless otherwise stated

Statement of Changes in Equity

for the year ended 31 December

	Notes	Issued capital	Share premium	Statutory reserve fund	Actuarial (losses)/ gains on defined benefit plans	Retained earnings	Total equity
Year ended 31 December 2009							
As at 1 January 2009		863,955	386,139	57,484	(206)	402,631	1,710,003
Profit for the year		-	-	-	-	147,704	147,704
Other comprehensive income		-	-	-	413	-	413
Total comprehensive income		-	-	-	413	147,704	148,117
Increase of share capital	22	158	-	(158)	-	-	-
Allocation to funds		-	-	33,745	-	(33,745)	-
Dividends	22	-	-	-	-	(368,680)	(368,680)
At 31 December 2009		864,113	386,139	91,071	207	147,910	1,489,440
Year ended 31 December 2010							
As at 1 January 2010		864,113	386,139	91,071	207	147,910	1,489,440
Merger impact		-	-	24,787	-	161	24,948
Profit for the year		-	-	-	-	286,114	286,114
Other comprehensive income		-	-	-	(499)	-	(499)
Total comprehensive income		-	-	-	(499)	286,114	285,615
Allocation to funds		-	-	14,771	-	(14,771)	-
Dividends	22	-	-	-	-	(132,933)	(132,933)
At 31 December 2010		864,113	386,139	130,629	(292)	286,481	1,667,070

Separate Financial Statements. All amounts are in thousands of Euro, unless otherwise stated

Merger impact disclosed in Statement of changes in equity consists of (Note 4):

Share capital	123,993
Non-current assets, net of deferred tax	170,446
Goodwill	73,313
Provision for Universal service obligation, net of deferred tax	11,355
Financial investment in T-Mobile	(378,946)
	161

Profit for the year includes retained earnings and profit for the accounting period ending as of 30 June 2010 of T-Mobile in amount of EUR 208,062 thousand.

Statement of Cash Flows

for the year ended 31 December

	Notes	2010	2009
Profit for the year		286,114	147,704
Adjustments for:			
– Depreciation, amortisation and impairment losses	12,13,14	178,891	120,974
– Interest income, net		(3,574)	(4,287)
– Income tax expense	11	18,590	12,119
– Gain on disposal of property and equipment	8	(361)	(2,584)
– Merger impact	4,9	(208,062)	-
– Dividend income from group companies	9,26	(2,658)	(100,704)
– Other non-cash items		(2,417)	(80)
– Movements in provisions	24	2,146	(153)
Changes in working capital:			
– Change in trade and other receivables		227	(3,070)
– Change in inventories		(2,736)	3,827
– Change in trade and other payables		6,613	175
Cash flows from operations		272,773	173,921
– Income taxes paid		(24,711)	(11,157)
Net cash flows from operating activities		248,062	162,764
Investing activities			
– Purchase of software and property and equipment		(105,415)	(91,776)
– Proceeds from disposal of property and equipment		1,423	6,324
– Acquisition of interest in subsidiary		(10,733)	-
– Dividends received	26	103,362	121,018
– Acquisition of held-to-maturity investments		(78,706)	(25,985)
– Proceeds from disposal of held-to-maturity investments		56,211	29,875
– Disbursement of intragroup loan		(110,000)	(240,066)

Separate Financial Statements. All amounts are in thousands of Euro, unless otherwise stated

	Notes	2010	2009
– Repayment of intragroup loan		105,045	35,000
– Acquisition of short-term bank deposits		(60,000)	-
– Interest received		2,462	3,433
– Cash and cash equivalents transferred on merger		69,243	-
Net cash (used in)/from investing activities		(27,108)	(162,177)
Financing activities			
– Dividends paid	22	(132,933)	(193,889)
– Other charges paid		(35)	(18)
Net cash used in financing activities		(132,968)	(193,907)
Net increase in cash and cash equivalents		87,986	(193,320)
Cash and cash equivalents at 1 January	21	75,312	268,632
Cash and cash equivalents at 31 December	21	163,298	75,312

Significant non-cash transactions
In 2009, the Company declared and paid a dividend in the total amount of EUR 368,680 thousand. Part of the dividends paid; in amount of EUR 174,791 thousand was settled against the loan provided to Deutsche Telekom AG.

Separate Financial Statements. All amounts are in thousands of Euro, unless otherwise stated

Notes to the Financial Statements

Index to the notes to the financial statements

Separate Financial Statements. All amounts are in thousands of Euro, unless otherwise stated

1. General information

Slovak Telekom, a. s. ("the Company" or "Slovak Telekom") is a joint-stock company incorporated on 1 April 1999 in the Slovak Republic. The Company's registered office is located at Karadžičova 10, 825 13 Bratislava. The business registration number (IČO) of the Company is 35 763 469 and the tax identification number (DIČ) is 202 027 3893. On 4 August 2000, Deutsche Telekom AG ("Deutsche Telekom" or "DT AG") gained 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 retains 49% of the shares of the Company through the Ministry of the Economy of the Slovak Republic (34%) and the National Property Fund of the Slovak Republic (15%).

In December 2009, the Board of Directors of the Company approved the concept of the integration of Slovak Telekom, a. s. with its 100% subsidiary T-Mobile Slovensko, a. s. ("T-Mobile") in line with the structural and organizational changes within the Deutsche Telekom Group. On 27 April 2010 the integration of the companies was approved by the General Meeting of the Company. As a result of this decision, T-Mobile was wound up without liquidation by means of an up-stream merger and all its assets, rights and obligations, including labour rights and duties, were transferred to Slovak Telekom as the legal successor as of 1 July 2010. The Company operates on the market under two brand names T-Com and T-Mobile.

The Company is the principal supplier of fixed-line and mobile telecommunications services in the Slovak Republic and owns and operates the majority of the telecommunications facilities therein. The Company provides national and international telephony services, broadband internet services, IPTV (Magio), and a wide range of other telecommunications services including data networks, value added services and leased lines. It also provides residential and business customers with products ranging from standard telephones to computer communications networks. The Company provides mobile telephony services in the 900 MHz and 1800 MHz frequency bands under the Global System for Mobile Communications ("GSM") standard and in the 2100 MHz frequency band under the Universal Mobile Telecommunications System standard ("UMTS"), hereinafter referred to as "mobile services". The Company use the 450 MHz frequency band to provide wireless broadband internet access under the Flash-OFDM standard and provides also Managed Data Network Services. The Company also launched Fixed Wireless Access (FWA), utilizing the 26 GHz/28 GHz frequency bands.

The general license granted by the Telecommunications Office of the Slovak Republic for the provision of mobile services under the GSM 900, GSM 1800 and NMT 450 MHz standards is valid up to 30 August 2011 at which point the Company is entitled to request renewal of the license for an additional period of up to ten years. The UMTS license is valid up to 16 July 2022 when the Company will be entitled to request its prolongation. The 26 GHz/28 GHz frequency licenses were granted by the Telecommunications Office of the Slovak Republic and are valid up to December 2017 when the Company will be entitled to request their prolongation.

Members of the Statutory Boards as at 31 December 2010

Board of Directors

- Chair: Ing. Miroslav Majoroš
- Vice-chair: Ing. Martin Mác
- Member: Szabolcs Gáborjáni-Szabó
- Member: Albert Pott
- Member: Dr. Ralph Rentschler
- Member: Ing. Miloš Šujanský M.B.A.
- Member: Ing. Róbert Sándor

Supervisory Board

- Chair: Andreas Hesse
- Vice-chair: Ing. Katarína Lešková
- Member: Ing. Július Maličký
- Member: Milan Brlej
- Member: Ing. Ján Vozár
- Member: Ing. Ján Hláčik
- Member: Ing. Miroslav Galamboš
- Member: Cornelia Elisabeth Sonntag
- Member: Dr. Hans-Peter Schultz

In 2010 a number of changes were entered in the Commercial Register: Mr. Jaroslav Volf, Mr. Ivan Doletina, Mr. Lutz Schade and Mr. Vladimír Zeman left the Board of Directors and were replaced by Mr. Juraj Beňo, Mr. Liberios Vokorokos, Mr. Miloš Šujanský and Mr. Albert Pott. Mr. Juraj Beňo and Mr. Liberios Vokorokos were replaced in December 2010 by Mr. Martin Mác and Mr. Róbert Sándor. In addition, Mr. Wolfgang Hauptmann, Mr. Pavol Dlhoš, Mr. Albert Matheis, Ms. Jiřina Perényiová, Mr. Norbert Schmidt and Mr. Anton Štefko left the Supervisory Board and were replaced by Mr. Andreas Hesse, Ms. Slávka Jánošíková, Mr. Vincent Straka, Mr. Jaroslav Volf, Ms. Cornelia Elisabeth Sonntag and Mr. Hans-Peter Schultz. Ms. Slávka Jánošíková, Mr. Vincent Straka and Mr. Jaroslav Volf were replaced in December 2010 by Ms. Katarína Lešková, Mr. Ján Vozár and Mr. Miroslav Galamboš.

Deutsche Telekom AG, with its registered office at Friedrich Ebert Allee 140, Bonn, Germany, is the parent of the group of which the Company is a member and for which the group financial statements are drawn up. The parent's consolidated financial statements are available at their registered office or at the District Court of Bonn HRB 6794, Germany.

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 International Financial Reporting Standards ("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 Euro ("EUR"), the financial statements are presented in Euros (EUR) and all values are rounded to the nearest thousands, except when otherwise indicated.

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 the Company and have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

On 10 March 2011, the Company also issued consolidated financial statements for the year ended 31 December 2010 prepared in compliance with IFRS. These consolidated financial statements are available at the Company's registered office or at the Register Court administering the Commercial Register of District Court Bratislava I, Slovak Republic.

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 their 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.

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

The cost of subsequent enhancement is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Maintenance, repairs and minor renewals are charged to the income statement as incurred.

An item of property and equipment is derecognised 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 period the asset is derecognised. 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	8 to 30 years
Telephone exchanges and related equipment	2 to 20 years
Other fixed assets	13 months 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. Impairment losses are reversed if the reasons for recognising the original impairment loss no longer apply.

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. Property and equipment once classified as held for sale are not depreciated. 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 that would have been recognised 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 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets have a finite useful life and are amortised using the straight-line method over the useful life.

The useful lives and the amortisation 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 amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

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

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 costs beyond one year are recognised as intangible assets. 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. Cost also includes borrowing cost when those costs are incurred, if the recognition criteria are met. Intangible assets are assessed for impairment whenever there is an indication that they may be impaired.

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

Customer contracts and related customer relationships	8 to 13 years
Licenses	10 to 20 years
Software, brand and other	2 to 16 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 in the period the asset is derecognised.

2.4 Goodwill

The goodwill previously recognised through the acquisition of the fully owned subsidiary T-Mobile was transferred to the integrated company Slovak Telekom as at 1 July 2010. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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

2.5 Investments in subsidiaries

Investments in subsidiaries are recognised at cost. 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. Dividends received from subsidiaries are recognised as an income when the right to receive dividend is established.

2.6 Impairment of assets

At each reporting date the Company 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 Company makes an estimate of the asset's recoverable amount. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The Company determines the recoverable amount of a cash-generating unit on the basis of its fair value less costs to sell. The fair value less costs to sell is determined by reference to discounted cash flow calculations. These discounted cash flow calculations are based on financial budgets approved by management, usually covering a five-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 bases the 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. The discount rate used reflects the risk specific to the cash-generating unit. Cash flows used reflect management assumptions and are supported by external sources of information.

Investments in a subsidiaries are tested for impairment if impairment indicators exist. The Company considers, as minimum, the following indicators of impairment: the carrying amount of the investment in the separate financial statements exceeds the carrying amounts of the investee´s net assets in the consolidated financial statements, including associated goodwill or; the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared.

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 fair value less cost to sell.

2.7 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on a weighted average basis. Net realisable 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.

2.8 Financial assets

When financial assets are recognised, they are initially measured at fair value, plus, in the case of investments not held at fair value through profit or loss, directly attributable transaction costs. The Company determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

Trade and other receivables
After initial recognition trade and other receivables, which generally have 14-60 days' terms, are measured at amortised cost less any allowance for doubtful accounts. The allowance recognised reflects the expected credit risk. The carrying amount of the asset is reduced to its recoverable amount through the use of an allowance account, and the amount of the loss is recognised in the income statement. Assets recoverable amount is based on estimated future cash flows. The estimated cash flows are based on the past experience of the collectibility of overdue receivables.

When the trade receivable for which an allowance was recognised becomes uncollectible or sold, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against costs in the income statement.

Amounts payable to and receivable from the same international operators are shown net in the statement of financial position when a right to set-off exists.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on assets held for trading are recognised in profit or loss.

During 2010 the Company did not hold any derivative instruments designated as hedges in accordance with IAS 39. The Company did, however, enter certain derivative transactions that, while providing effective economic hedges under the Company's risk management policies, do not qualify for hedge accounting under the specific rules of IAS 39. Changes in the fair value of derivative instruments that do not qualify for hedge accounting under IAS 39 are recognised immediately in the income statement.

Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Company has the positive intention and ability to hold them to maturity. After initial recognition held-to-maturity investments are measured at amortised cost using the effective interest method. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate. Gains and losses are recognised in profit or loss when the investments are derecognised or impaired.

Cash and cash equivalents
Cash and cash equivalents in the statement of financial position comprise cash at banks and in hand, short-term deposits with an original maturity of three months or less from the date of acquisition and short term bonds and promissory notes with high liquidity.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of bank overdrafts. In the statement of financial position, bank overdrafts are included in borrowings in current liabilities.

Derecognition of financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:
- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset and has transferred substantially all the risks and rewards of the ownership of the asset.

2.9 Financial liabilities

Trade and other payables
Trade and other payables are initially measured at fair value. After initial recognition trade and other payables are measured at amortised cost using the effective interest method.

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

During 2010 the Company did not hold any derivative instruments designated as hedges in accordance with IAS 39. The Company did, however, enter certain derivative transactions that, while providing effective economic hedges under the Company's risk management policies, do not qualify for hedge accounting under the specific rules of IAS 39. Changes in the fair value of derivative instruments that do not qualify for hedge accounting under IAS 39 are recognised immediately in the income statement.

Derecognition of financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

2.10 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 fulfilment 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 recognised as an expense in the period in which the termination takes place.

2.11 Prepaid expenses

The Company has easement rights to use and access technological equipment sited in properties owned by third parties. These easements, which arise on the disposal of properties where such technological equipment is sited, are presented within prepaid expenses in the statement of financial position. Easements are initially recognised at their net present value and then amortised over their expected duration.

2.12 Deferred income – Customer loyalty programme

The Company operates a customer loyalty programme. As part of the programme, the Company grants points to the participants, which can be redeemed in future periods for free or discounted goods or services. Revenue allocated to the points granted in sale transaction based on their fair value is deferred when points are granted to the customers. Revenue is recognised when the customers receive benefits from the programme.

2.13 Provisions

Provisions are recognised 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.

If the effect of the time-value of money is material, provisions are discounted using a risk-adjusted, pre-tax discount rate. Where discounting is used, the increase in the provision due to the passage of time is recognised as a financial expense.

Asset retirement obligations
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 recognised 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 capitalised cost is depreciated over the estimated useful life of the related non-current asset. Upon settlement of the liability, the Company either settles the obligation for its recorded amount or incurs a gain or loss upon settlement.

Customer loyalty programme
Members of the loyalty programme can also collect loyalty points for certain behaviour (e.g. for arranging a direct debit facility, activation of electronic bill, etc.) that is in no way related to a sales transaction. Such loyalty points are outside the scope of IFRIC 13 and the Company recognises a provision in accordance with IAS 37 at the time when those points are granted. Amount of provision is measured at the amount necessary to settle expected liability to participants of the loyalty programme.

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

Employee benefit obligations
The Company provides retirement and other long-term benefits under both defined contribution and defined benefit plans.

In the case of defined contribution plans, the Company pays contributions to publicly or privately administered pension or severance insurance plans on a mandatory or contractual basis. Once the contributions have been paid, the Company has no further payment obligations. The contribution is 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.

The Company also provides defined retirement and jubilee benefits. These benefits are unfunded. The costs of providing benefits are determined separately for each benefit using the projected unit credit actuarial valuation method. The defined benefit liability comprises the present value of the defined benefit obligation less past service costs not yet recognised. The discount rate is determined by reference to market yields on government bonds. The currency and term of the government bonds are consistent with the currency and estimated term of the benefit obligations. The past service costs are recognised as an expense on a straight line basis over the average period until the benefits become vested. If the benefits become vested immediately following the introduction of, or changes to, a benefit plan, past service costs are recognised immediately.

Actuarial gains and losses arising from experience-based adjustments and changes in actuarial assumptions are recognised in the period in which they occur, within other comprehensive income for retirement benefits and within the income statement for jubilee benefits.

2.14 Revenue recognition

Revenue is recognised 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 Company and the revenue can be measured reliably. Revenue for rendering services and customer equipment sales is shown net of value added tax and discounts.

The Company recognises revenue as follows:

Access fees and charges for incoming and outgoing telephone calls and other traffic are recognised in revenue in the period in which the services are 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. Customer acquisition costs incurred, to the extent of related activation fees, are recognised as assets and amortised over the same period.

Interconnect revenue generated from calls and other traffic that originate in other operators' networks is recognised as 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 recognised 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 ownership.

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 a customer is allocated based on each component's fair value. The revenue recognised is limited to the consideration received.

Revenue from sales of equipment is recognised when the equipment is delivered and installed at customer premises, if installation is significant part of the contract.

Revenue from the operating lease of equipment is recognised on a straight-line basis over the period of the lease. Revenue from dividends is recognised when the shareholder's right to receive payment is established.

2.15 Operating profit

Operating profit is defined as the result before income taxes and finance items. Finance items include interest income on short-term deposits and held-to-maturity investments, interest expense on borrowings, foreign exchange gains and losses and dividends from group companies.

2.16 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 translated at the functional currency rate of exchange ruling at the statement of financial position date.

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

2.17 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 statement of financial position date.

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

Deferred tax liabilities are recognised for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of goodwill or 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.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax losses to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax losses can be utilised, except where the deferred tax asset 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 tax assets is reviewed at each statement of financial position 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 tax asset to be utilised.

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) Contractual penalties in amount of EUR 1,888 thousand is disclosed within other revenue (Note 5) in the 2009 comparatives. In the 2009 income statement this item was presented within other operating income.

b) Fees paid for short-term licenses on telecommunication services of EUR 3,600 thousand is disclosed within content fees (Note 7) in the 2009 comparatives. In the 2009 Note 6 this item was presented within other operating costs.

c) Security and legal and regulatory claims costs are disclosed within other operating costs (Note 7) in 2009 comparatives. In the 2009 Note 6 these items were presented separately.

2.19 Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent liabilities reported at the end of the period and the reported amounts of revenues and expenses for that period. Actual results may differ from these estimates.

In the process of applying the Company's accounting policies, management has made the following judgements, estimates and assumptions which have the most significant effect on the amounts recognised in the financial statements:

Useful lives of non-current assets
The estimation of the useful lives of non-current assets is a matter of judgement based on the Company's experience with similar assets. As described in Notes 2.2 and 2.3, the Company reviews the estimated remaining useful lives of non-current assets annually. Management's estimates and judgements are inherently prone to inaccuracy for those assets for which no previous experience exists.

The Company reviewed useful lives of non-current assets during 2010 and changed accounting estimates where appropriate. The useful lives of air-conditioning, vehicles, IT equipment, furniture and security systems were either prolonged or shortened to reflect reassessed expected use of the assets. The financial effect of the change resulted in Fixed segment in increase of depreciation of EUR 3,458 thousand in 2010 and EUR 1,348 thousand in future periods and in Mobile segment in increase of depreciation of EUR 1,342 thousand in 2010 and EUR 1,868 thousand in future periods.

Impairment of non-current assets
The Company has recorded impairment losses on property and equipment on the basis of management's expectations of future sales, the timing of such sales and expected selling price less cost to sell. Refer to Note 13 and Note 14 for details of the impairment of property and equipment and intangible assets.

Impairment of goodwill
The Company determines whether goodwill is impaired at least annually. This requires an estimation of the recoverable amount determined using a discounted cash flow method, which requires the Company to make estimate of the suitable risk-adjusted, pre-tax discount rate and the expected future cash flows from the cash-generating units. Specifically, the estimation of cash flows underlying the fair values of the mobile business considers the continuing investment in network infrastructure required to generate future revenue growth through the offering of new data products and services for which only limited historical information is available. Refer to Note 15 for details of the impairment testing of goodwill.

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, management bases its estimates on historical write-off experience, customer creditworthiness and changes in customer payment terms. Refer to Note 18 for details of the allowance for doubtful accounts.

Easements
On disposal of certain properties where technological equipment is sited and required for the Company's operations, the Company enters into agreements to obtain easement rights to continue to use and access this equipment for extended periods. Management has determined, based on an evaluation of the terms and conditions of these sales agreements, that these transactions give rise to an operating lease commitment as the Company does not retain the significant risks and rewards of ownership of the properties.

Asset retirement obligation
The Company enters into lease contracts for land and premises on which mobile communication network equipment is sited. The Company is committed by these contracts to dismantle the equipment and restore the land and premises to their original condition. Management's determination of the amount of the asset retirement obligation involves the following estimates:

a) an appropriate risk-adjusted, pre-tax discount rate commensurate with the Company's credit standing;

b) the amounts necessary to settle future obligations.

Provisions and contingent liabilities
As set out in Notes 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 of economic resources and estimates the amount needed to settle the possible or probable obligation. Such judgements and estimates are continually reassessed taking into consideration experience with similar cases.

Fair value of financial instruments
The fair value of financial instruments which are not traded in an active market is determined by using quoted forward exchange rates for similar instruments, bank quotes available at the statement of financial position date and valuation techniques.

Nominal values for trade and other receivables and payables with maturities of less than one year are assumed to approximate their fair values due to their short-term nature.

Fair value of customer loyalty programme points
The Company estimates the fair value of points granted under the customer loyalty programme by applying statistical techniques. Inputs to the model include making assumptions about expected redemption rates, fair value of products/services that will be redeemed in the future and customers' preferences.

2.20 Adoption of IFRS during the year

Standards, interpretations and amendments to published standards effective for the Company's accounting period beginning on 1 January 2010 which are relevant to the Company's operations

- IFRS 3 Business Combinations (Revised), effective for annual periods beginning on or after 1 July 2009

  The revised standard increases the number of transactions to which it must be applied, by including combinations of mutual entities and combinations without consideration (e.g. dual listed shares). Other significant changes relate to choice of measuring the non-controlling interest either at their fair value or at their proportionate interest in the acquiree's net assets; in step acquisitions, previously held interests are remeasured to fair value at the date of the subsequent acquisition and this value is included in calculating goodwill; contingent consideration is formally defined as additional consideration by the acquirer to the former owners and is measured at fair value at the date of acquisition; acquisition-related costs are expensed through profit or loss at the time when such costs are incurred and other.

- IAS 27 Consolidated and Separate Financial Statements (Amendment), effective for periods beginning on or after 1 July 2009

  The amended standard determined that changes in ownership interests of a subsidiary that do not result in loss of control will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss; losses incurred by the subsidiary will be allocated between the controlling and non-controlling interests even if the losses exceed the non-controlling equity investment in the subsidiary. Upon loss of control of a subsidiary, any retained interest will be remeasured to fair value and this will impact the gain or loss recognised on disposal. **The Company did not undertake any transactions resulting in loss of control in its subsidiaries and it does not have any non-controlling interest.**

- IAS 39 Financial Instruments: Recognition and Measurement (Amendment – Eligible Hedged Items), effective for annual periods beginning on after 1 July 2009

  The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item in an effective hedge relationship. These must be separately identifiable components of the financial instrument and the changes in cash flows or fair value of the entire financial instrument arising from changes in the designated risks and portions must be reliably measurable. **The Company does not apply any effective hedge accounting that fulfills criteria of IAS 39 for effective hedges; therefore this amendment is not relevant.**

- Improvements to IFRS issued April 2009, effective for annual periods beginning on or after 1 January 2010

  In April 2009 the IASB issued the second omnibus edition of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments results in changes to accounting policies but did not have any impact on the financial position or performance of the Company:
  - IFRS 2 Share-based Payment
  - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
  - IFRS 8 Operating Segments
  - IAS 1 Presentation of Financial Statements
  - IAS 7 Statement of Cash Flows
  - IAS 17 Leases
  - IAS 18 Revenue
  - IAS 36 Impairment of Assets
  - IAS 38 Intangible Assets
  - IAS 39 Financial Instruments: Recognition and Measurement
  - IFRIC 9 Reassessment of Embedded Derivatives
  - IFRIC 16 Hedges of a net Investment in a Foreign Operation

Standards, interpretations and amendments to published standards effective for the Company's accounting period beginning on 1 January 2010 which are not relevant to the Company's operations

- IFRS 1 First-time Adoption of International Financial Reporting Standards (Amendments – Additional Exemptions for First-time Adopters), effective for annual periods beginning on or after 1 January 2010
- IFRS 2 Share-based Payment Arrangements, effective for annual periods beginning on or after 1 January 2010
- IFRIC 17 Distributions of Non-cash Assets to Owners, effective for annual periods beginning on or after 1 July 2009

Standards, interpretations and amendments to published standards that have been published, are not effective for accounting periods starting on 1 January 2010 and which the Company has not early adopted

- IFRS 1 First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, effective for annual periods beginning on or after 1 July 2010
- IFRS 7 Financial Instruments: Disclosures (Amendment – Transfer of Financial Assets), effective for annual periods beginning on or after 1 January 2013
- IFRS 9 Financial Instruments, effective for annual periods beginning on or after 1 January 2013
- IAS 12 Income taxes (Amendment – Tax recovery of underlying assets), effective for annual periods beginning on or after 1 January 2013

- IAS 24 Related Party Disclosures (Revised), effective for annual periods beginning on or after 1 January 2011
- IAS 32 Financial Instruments: Presentation (Amendments – Classification of Rights Issues), effective for annual periods beginning on or after 1 February 2010
- IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment), effective for annual periods beginning on or after 1 January 2011
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments, effective for annual periods beginning on or after 1 July 2010
- Improvements to IFRS issued May 2010 (The third omnibus edition), effective for annual periods beginning on or after 1 July 2010

The future implications of standards, interpretations and amendments that are relevant to the Company are being continuously evaluated and will be applied in accordance with the requirements if applicable.

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 minimise potential adverse effects on the performance of the Company.

The Company's financial instruments include cash and cash equivalents, short-term deposits, held-to-maturity investments and loans. 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 deemed to be long-term.

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

The Company enters into derivative transactions. The purpose is to manage the foreign currency risk arising from the Company's operations. The Company does not perform speculative trading with the derivative instruments.

The main risks arising from the Company's financial instruments are market risk, credit risk and liquidity risk. The Treasury and Taxes Department is responsible for financial risk management, in accordance with guidelines approved by the Board of Directors and the DT AG Treasury Department. The Treasury and Taxes Department works in association with the Company's operating units and with the DT AG Treasury Department. There are policies in place to cover specific areas, such as market risk, credit risk, liquidity risk, the investment of excess funds and the use of derivative financial instruments.

3.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

3.1.1 Foreign currency risk

The Company is exposed to transactional foreign currency risk arising from international interconnectivity. In addition, the Company is exposed to risks arising from capital and operational expenditures denominated in foreign currencies.

The Company requires all of its operating units to use forward currency contracts, currency swaps or spot-market trading to eliminate the exposure towards foreign currency risk. Hedging financial instruments must be in the same currency as the hedged item. It is the Company's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximize hedge effectiveness.

Short-term cash forecasts are prepared on a rolling basis to quantify the Company's expected exposure. The Company's risk management policy requires the hedging of every cash flow denominated in foreign currency exceeding the equivalent of EUR 50 thousand.

In 2009 and 2010, the Company entered into currency forward contracts to hedge its foreign currency exposure arising on its firm commitments for future capital and operating expenditures. The forward contracts are expected to mature on the date of the anticipated foreign currency cash expenditures. At 31 December 2010, the Company has hedged 100% of its foreign currency purchases for which firm commitments existed at the statement of financial position date.

The Company's main exposure is to changes in USD and CZK foreign exchange rates, with immaterial risk related to financial assets and financial liabilities denominated in other foreign currencies. The previous Company's exposure to changes in the EUR exchange rate was ended with effect from 1 January 2009 when the euro became the official currency of the Slovak Republic.

The following table details the sensitivity of the Company's profit before tax and equity to a 5% increase/decrease in the EUR against relevant foreign currencies (USD and CZK), with all other variables held as constant. The 5% change represents management's assessment of the reasonably possible change in foreign exchange rates and is used when reporting foreign currency risk internally in line with treasury policies.

		2010	2009
Profit before tax	Depreciation of EUR by 5%	114	(34)
	Appreciation of EUR by 5%	(103)	31
Equity	Depreciation of EUR by 5%	114	(34)
	Appreciation of EUR by 5%	(103)	31

3.1.2 Interest rate risk

The Company's income and operating cash flows are substantially independent of changes in market interest rates. The Company has entered into a master agreement on upstream loans with DT AG in October 2008.

The Company's exposure to the risk of changes in market interest rates relates mainly to the Company's held–to-maturity investments. The Company seeks to optimize its exposure towards interest rate risk using a mix of fixed–rate and floating–rate securities. At the end of 2010, the securities portfolio consists of fixed-rate bonds and treasury bills.

The sensitivity of held-to-maturity investments to changes in interest rates is detailed in Note 28.

3.2 Credit risk

The Company is exposed to credit risk from its operating activities and certain financing activities. 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 and securities issuers on the basis of the credit ratings assigned to these institutions by reputable rating agencies and these limits are reviewed on a regular basis.

The Company establishes an allowance for impairment that represents its estimate of losses incurred in respect of trade and other receivables and, historically, actual losses have not exceeded management's expectations. Impairment losses are recognized to cover both individually significant credit risk exposures and a collective loss component for assets that are assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables includes the Company's past experience of collecting payments, as well as changes in the internal and external ratings of customers.

In respect of financial assets, which comprise cash and cash equivalents, short-term deposits, held-to-maturity investments, derivative financial instruments, loans and trade receivables, the Company's exposure to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these financial assets. No significant agreements reducing the maximum exposure to credit risk had been concluded at 31 December 2010.

The Company assesses its financial investments at each reporting date to determine whether there is any objective evidence that they are impaired. A financial investment is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that investment. Significant financial investments are tested for impairment on an individual basis. The remaining financial investments are assessed collectively in groups that share similar credit risk characteristics.

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An impairment loss in respect of a financial investment is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. The reversal of the impairment loss is recognized in profit or loss.

The quantitative disclosure of the Company's exposure to credit risk is detailed in Note 18.

3.3 Liquidity risk

The Company's liquidity risk mitigation principles define the level of cash and 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 and held-to-maturity investments with the cost of financing available on credit facilities, with the objective of holding predetermined minimum amounts of cash and cash equivalents and credit facilities available on demand.

The table summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments.

At 31 December 2010	On demand	Less than 3 months	3 to 12 months	Over 1 year	Total
Trade and other payables	5,505	104,863	15	-	110,383

At 31 December 2009	On demand	Less than 3 months	3 to 12 months	Over 1 year	Total
Trade and other payables	1,331	43,279	41	-	44,651

3.4 Capital risk management

The Company manages its capital to ensure its ability to support its business activities on an ongoing basis, while maximizing the return to its shareholders through optimization of its capital structure. It takes into consideration any applicable guidelines of the majority shareholder. No changes were made to the objectives, policies or processes in 2010.

The capital structure of the Company consists of equity attributable to shareholders, comprising issued capital, reserves, retained earnings and other components of equity (Note 22).

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4. Slovak Telekom and T-Mobile Slovensko (merger)

T-Mobile ceased to exist with effect from 1 July 2010 and was wound up without liquidation as of 30 June 2010 on the basis of a merger agreement concluded between Slovak Telekom and T-Mobile. On 17 June 2010, the merger agreement was approved by the sole shareholder of T-Mobile and by the extraordinary General Meeting of Slovak Telekom. At the same time, the agreement was signed by the members of the Board of Directors of both companies.

As of the date of registration of the merger in the Commercial Register, the whole of the equity of T-Mobile passed to Slovak Telekom, which became the universal legal successor. The share capital of Slovak Telekom of EUR 864,113 thousand remains unchanged upon the merger.

To achieve a true and fair presentation of the merger, the assets and liabilities of T-Mobile were recognized at their carrying values as if presented in the consolidated Financial Statements of Slovak Telekom at 30 June 2010.

For the purposes of the preparation of statement of financial position, the Company assumed the following transactions:

Equity: Share capital of T-Mobile of EUR 123,993 thousand was assumed in full as the retained earnings of Slovak Telekom. The statutory reserve fund of T-Mobile of EUR 24,787 thousand was assumed in full as the statutory reserve fund of Slovak Telekom. Retained earnings and profit for the accounting period ending 30 June 2010 of T-Mobile of EUR 208,062 thousand were assumed in full in the income statement of Slovak Telekom (Note 22).

Financial investments: The financial investment in T-Mobile of EUR 378,946 thousand was eliminated from Slovak Telekom's statement of financial position and the retained earnings of Slovak Telekom were reduced by the same amount (Note 16).

Non-current assets: The non-current assets were recognized to Slovak Telekom's statement of financial position with reference to the carrying values as if presented in the consolidated Financial Statements of Slovak Telekom at 30 June 2010. Non-current assets were increased by EUR 210,427 thousand (T-Mobile customer lists, brand, radio and switching equipment), at the same time, the related deferred tax liability of EUR 39,981 thousand was recorded, and goodwill of EUR 73,313 thousand recognized. The double entry for these transactions was the retained earnings of the Company. Assets of EUR 37,394 thousand were reclassified from property and equipment to intangible assets.

Mutual receivables and liabilities: Mutual receivables and liabilities of T-Mobile and Slovak Telekom were eliminated in the statement of the financial position.

Provisions: The provision for the "Universal Service Obligation" of EUR 14,020 thousand and related deferred tax receivable of EUR 2,665 thousand created by T-Mobile was released through retained earnings in Slovak Telekom's statement of financial position.

Other: Valuation allowances to assets, provisions, accruals and prepayments were assumed in full by Slovak Telekom and recognized in the same amount and structure.

The comparative information presented in the statement of financial position as at 31 December 2009 and income statement for the year ended 31 December 2009 do not include the assets and liabilities and income and expenses of T-Mobile. Therefore, the 2009 comparative data are not entirely comparable.

The transfer of assets, liabilities and equity of T-Mobile as at 1 July 2010 was performed in the following amounts:

ASSETS	
Non-current assets	
Property and equipment	204,515
Intangible assets	286,861
Goodwill	73,313
Held-to-maturity investments	13,144
Prepaid expenses and other assets	1,481
	579,314
Current assets	
Inventories	5,616
Trade and other receivables	60,224
Prepaid expenses and other assets	5,315
Held-to-maturity investments	14,824
Income tax	1,730
Derivatives	43
Cash and cash equivalents	69,243
	156,995
TOTAL ASSETS	736,309
EQUITY AND LIABILITIES	
Shareholders' equity	
Share capital	-
Statutory reserve fund	24,787
Retained earnings and other components of equity	587,169
	611,956
Non-current liabilities	
Provisions	8,241
Deferred tax	48,203
Other payables and deferred income	987
	57,431

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Current liabilities	
Trade and other payables	49,779
Deferred income and other liabilities	13,612
Provisions	3,531
	66,922
Total liabilities	124,353
TOTAL EQUITY AND LIABILITIES	736,309

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5. Revenue

	2010	2009
Voice services	168,685	189,185
Content services	13,792	14,493
Terminal equipment	9,113	7,984
Data services	50,621	58,508
Fixed network communication revenue	242,211	270,170
Wholesale revenue	66,971	73,124
IP/Internet revenue	92,756	88,629
Total fixed network and broadband revenue	401,938	431,923
Mobile communication revenue	247,978	-
Other revenue	19,552	14,060
Total revenue	669,468	445,983

6. Staff costs

	2010	2009
Wages and salaries	95,948	76,529
Social security contributions	24,085	18,324
	120,033	94,853

	2010	2009
Number of employees (including expatriates) at period end	4,654	3,432

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7. Other operating costs

	2010	2009
Repairs and maintenance	16,078	10,630
Outsourced services	13,004	11,461
Marketing	23,451	11,656
Energy	11,936	10,832
Postal services	5,579	4,520
Rentals and leases	13,722	8,461
IT services	10,178	6,918
Dealers' commissions	15,887	8,097
Material sold	3,862	6,495
Business trips and training	1,702	1,376
Frequency fees	3,328	-
Content fees	9,716	5,872
Consultancy	8,109	6,512
Bad debts expenses	3,597	1,907
Customer solutions	9,456	8,067
Other	23,302	15,465
Own work capitalised	(14,863)	(16,291)
	158,044	101,978

8. Other operating income

	2010	2009
Gain on disposal of property and equipment, net	361	2,584
Income from material sold	5,780	7,420
Reversal of impairment of assets (Note 12,13)	4,146	699
Other	3,446	2,752
	13,733	13,455

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9. Financial income

	2010	2009
Merger impact	208,062	-
Dividends from subsidiaries (Note 26)	2,658	100,704
Reversal of impairment of held-to-maturity investments	664	1,328
Interest on short-term deposits	466	934
Interest on intragroup loans	1,458	1,569
Interest on held-to-maturity investments	877	955
Other	845	847
	215,030	106,337

10. Financial expense

	2010	2009
Impairment of intragroup loan	289	-
Change in fair value of long-term provision	143	-
Employee benefits - interest cost	93	117
Foreign exchange losses, net	464	109
Net loss on financial instruments held for trading	110	-
Interest cost on restoration obligations	231	-
Bank charges and other financial expense	72	18
	1,402	244

Foreign exchange losses, net in 2009 also comprise foreign exchange gains in amount of EUR 65 thousand, which arose from translation of opening balances of assets and liabilities from Slovak Crowns to Euro in relation to the adoption of the Euro as the official currency in Slovakia and the functional currency of the Company as of 1 January 2009.

11. Taxation

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

	2010	2009
Current tax expense	25,006	9,928
Deferred tax (income)/expense	(6,416)	2,191
Income tax expense reported in the income statement	18,590	12,119

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

	2010	2009
Profit before income tax	304,704	159,823
Income tax calculated at the statutory rate of 19% (2009: 19%)	57,894	30,366
Effect of income not taxable and expenses not tax deductible:		
– Dividends	(505)	(19,134)
– Merger impact	(39,532)	-
– (Release)/creation of legal and regulatory provisions	(107)	150
– Other tax non-deductible items, net	884	845
Tax recovery in respect of prior years	(44)	(108)
Income tax at the effective tax rate of 6% (2009: 8%)	18,590	12,119

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

	Statement of Financial Position		Income Statement	
	2010	2009	2010	2009
Difference between carrying and tax value of fixed assets	(160,786)	(111,118)	(5,591)	1,464
Allowance for held-to-maturity investments	1,922	1,024	126	252
Staff cost accruals	1,496	712	(292)	663
Allowance for bad debts	3,531	863	(347)	(155)
Termination benefits	752	667	(86)	(66)
Other	4,451	887	(226)	33
	(148,634)	(106,965)	(6,416)	2,191

Deferred tax assets and liabilities for 2010 include deferred tax assets and liabilities of T-Mobile as of the merger date in amounts of EUR 39,981 thousand from non-current assets recognized at merger and EUR 8,221 thousand from remaining items.

Deferred tax assets (liabilities) are reflected in the statement of financial position as follows:

	2010	2009
Deferred tax assets	13,347	4,153
Deferred tax liabilities	(161,981)	(111,118)
	(148,634)	(106,965)

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12. Assets held for sale

	Land, buildings and related equipment	
	2010	**2009**
At 1 January	8,314	12,226
Net transfer (to) / from property and equipment	(7,253)	32
Impairment charge	-	(483)
Reversal of impairment charge (Note 8)	470	699
Assets sold	(397)	(4,160)
At 31 December	1,134	8,314

Assets held for sale at 31 December 2010 comprise buildings and land which are to be sold within 1 year.

The Company transferred during 2010 assets of EUR 7,297 thousand to property and equipment. These assets ceased to meet the criteria to be classified as held for sale as the Company does not expect the sale to be completed within one year. The financial impact of the transaction was EUR 298 thousand.

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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 includ-ing advances	Total
Cost							
At 1 January 2010	107,753	956,388	1,176,754	-	132,446	14,461	2,387,802
Additions	3,222	16,731	18,723	3,513	23,769	27,027	92,985
Additions from merger	50,980	-	89,905	292,742	124,998	20,757	579,382
Disposals	(1,619)	(4,994)	(42,914)	(3,073)	(9,010)	(745)	(62,355)
Transfers	245	943	6,259	969	1,649	(10,065)	-
Transfer to and from assets held for sale	16,825	689	212	-	451	-	18,177
At 31 December 2010	177,406	969,757	1,248,939	294,151	274,303	51,435	3,015,991
Depreciation							
At 1 January 2010	(29,450)	(391,785)	(998,376)	-	(69,242)	(525)	(1,489,378)
Depreciation charge	(5,955)	(30,899)	(54,277)	(14,910)	(23,891)	-	(129,932)
Additions from merger	(28,332)	-	(61,963)	(203,380)	(80,904)	(288)	(374,867)
Impairment charge	3,189	(213)	(1,364)	-	(1,668)	(654)	(710)
Disposals	1,388	4,967	42,818	3,073	8,686	737	61,669
Transfers	-	-	-	-	(4)	4	-
Transfer to and from assets held for sale	(10,283)	(236)	(86)	-	(319)	-	(10,924)
At 31 December 2010	(69,443)	(418,166)	(1,073,248)	(215,217)	(167,342)	(726)	(1,944,142)
Net book value at 31 December 2010	107,963	551,591	175,691	78,934	106,961	50,709	1,071,849

The impairment charge relates mainly to the technological equipment which is considered to be obsolete, has no future use and will be liquidated. Impairment charge of Land and buildings of EUR 3,189 thousand contains reversal of impairment of EUR 3,676 thousand due to adjustment of estimated market values of the assets (Note 8).

Property and equipment, excluding motor vehicles, is insured to a limit of EUR 25,000 thousand (2009: EUR 25,000 thousand). Motor vehicles are insured to a limit of EUR 2,500 thousand (2009: EUR 2,500 thousand) for damage on health and expenses related to death and EUR 664 thousand for damage caused by destroyed, seized or lost items, lost profits.

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	Land and buildings	Duct, cable and other outside plant	Telephone exchanges and related equipment	Radio and transmission equipment	Other	Construction in progress includ-ing advances	Total
Cost							
At 1 January 2009	106,539	954,821	1,186,266	-	131,144	19,743	2,398,513
Additions	2,119	27,377	25,313	-	7,009	8,557	70,375
Disposals	(855)	(28,997)	(44,885)	-	(6,282)	-	(81,019)
Transfers	17	3,187	10,060	-	575	(13,839)	-
Transfer to assets held for sale	(67)	-	-	-	-	-	(67)
At 31 December 2009	107,753	956,388	1,176,754	-	132,446	14,461	2,387,802
Depreciation							
At 1 January 2009	(26,946)	(390,080)	(984,848)	-	(63,513)	(477)	(1,465,864)
Depreciation charge	(2,292)	(29,749)	(57,825)	-	(10,927)	-	(100,793)
Impairment charge	(611)	(106)	(1,517)	-	(826)	(85)	(3,145)
Disposals	371	28,997	44,893	-	6,128	-	80,389
Transfers	(7)	(847)	921	-	(104)	37	-
Transfer to assets held for sale	35	-	-	-	-	-	35
At 31 December 2009	(29,450)	(391,785)	(998,376)	-	(69,242)	(525)	(1,489,378)
Net book value at 31 December 2009	78,303	564,603	178,378	-	63,204	13,936	898,424

The impairment charge relates mainly to the technological equipment which is considered to be obsolete, has no future use and will be liquidated.

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14. Intangible assets

	Software	Licenses	Goodwill	Customer contracts	Intangibles under construction	Total
Cost						
At 1 January 2010	189,896	-	-	-	6,431	196,327
Additions	13,495	-	-	-	19,276	32,771
Additions from merger	195,424	85,612	73,313	411,329	12,260	777,938
Additions from internal developments	481	-	-	-	-	481
Disposals	(3,071)	-	-	-	-	(3,071)
Transfers	5,221	-	-	-	(5,221)	-
At 31 December 2010	401,446	85,612	73,313	411,329	32,746	1,004,446
Depreciation						
At 1 January 2010	(167,839)	-	-	-	-	(167,839)
Amortization charge	(24,065)	(2,454)	-	(17,836)	-	(44,355)
Additions from merger	(170,290)	(46,572)	-	(200,902)	-	(417,764)
Impairment charge	-	-	-	-	(218)	(218)
Disposals	3,071	-	-	-	-	3,071
Transfers	-	-	-	-	-	-
At 31 December 2010	(359,123)	(49,026)	-	(218,738)	(218)	(627,105)
Net book value at 31 December 2010	42,323	36,586	73,313	192,591	32,528	377,341

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	Software	Licenses	Goodwill	Customer contracts	Intangibles under construction	Total
Cost						
At 1 January 2009	173,826	-	-	-	6,869	180,695
Additions	12,729	-	-	-	3,815	16,544
Disposals	(912)	-	-	-	-	(912)
Transfers	4,253	-	-	-	(4,253)	-
At 31 December 2009	189,896	-	-	-	6,431	196,327
Depreciation						
At 1 January 2009	(152,147)	-	-	-	-	(152,147)
Amortization charge	(16,553)	-	-	-	-	(16,553)
Impairment charge	-	-	-	-	-	-
Disposals	861	-	-	-	-	861
Transfers	-	-	-	-	-	-
At 31 December 2009	(167,839)	-	-	-	-	(167,839)
Net book value at 31 December 2009	22,057	-	-	-	6,431	28,488

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15. Impairment of goodwill

The goodwill previously recognized at the acquisition of T-Mobile was transferred to the integrated company Slovak Telekom as at 1 July 2010. The amount of goodwill recognized is as follows:

T-Mobile	73,313	-
	73,313	-

The recoverable amount of the cash-generating unit was determined using cash flow projections based on the ten-year financial plans that have been approved by management and are also used for internal purposes. Cash lows beyond the ten-year period are extrapolated using a 2% growth rate (2009: 2.3%) and a discount rate of 7.62% (2009: 7.44%). This growth rate does not exceed the long-term average growth rate for the market in which the cash-generating unit operates. Further key assumptions on which management has based its determination of the recoverable amount of cash-generating unit include the development of revenue, customer acquisition and retention costs, churn rates, capital expenditures and market share. The recoverable amount of the cash-generating unit was determined to exceed its carrying value. Management believes that any reasonably possible change in the key assumptions on which the cash-generating unit's recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

16. Investments in subsidiaries

At 31 December 2010 the Company held the following investments in subsidiaries:

Name	Registered office	Activity	Cost of investment	Profit	Net assets
PosAm, spol. s r. o.	Odborárska 21, 831 02 Bratislava	IT services, applications and business solutions	12,968	2,787	6,875
Zoznam, s.r.o.	Viedenská cesta 3-7, 851 01 Bratislava	Internet portal	3,908	(326)	1,648
Zoznam Mobile, s.r.o.	Viedenská cesta 3-7, 851 01 Bratislava	Mobile content provider	2,348	171	309
Telekom Sec, s.r.o.	Kukučínova 52, 831 03 Bratislava,	Security services	7	(4)	6
Institute of Next Generation Networks	Poštová 1, 010 08 Žilina	NGN technology research and development	-	(30)	(281)
			19,231		

All subsidiaries are incorporated in the Slovak Republic and, except for the Institute of Next Generation Networks and PosAm, are wholly owned by the Company. Shares in the subsidiaries are not traded on a public market.

On 29 January 2010, Slovak Telekom acquired 51% equity interest in PosAm. The final purchase price will be determined by the amount of contingent consideration (earn-out), depending on the EBITDA level for 2010–2011, that will be paid in 2012 (Note 24). Slovak Telekom and the former owner of PosAm also agreed on put & call options which, if triggered, may result in the transfer of the residual 49% equity interest in PosAm.

On 11 February 2010, the Board of Directors of Slovak Telekom approved the liquidation of the Institute of Next Generation Networks. The liquidation was completed in November 2010 and conclusion of existence of the entity is expected in 2011.

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In December 2009, the Board of Directors of the Company approved the concept of the integration of Slovak Telekom with its 100% subsidiary T-Mobile. T-Mobile ceased to exist with effect from 1 July 2010. For integration of Slovak Telekom with T-Mobile refer to Note 4.

At 31 December 2009 the Company held the following investments in subsidiaries:

Name	Registered office	Activity	Cost of investment	Profit	Net assets
T-Mobile Slovensko, a.s.	Vajnorská 100/A, 831 03 Bratislava	Wireless phone and data services	378,946	113,041	296,646
Zoznam, s.r.o.	Viedenská cesta 3-7, 851 01 Bratislava	Internet portal	3,908	(339)	2,424
Zoznam Mobile, s.r.o.	Viedenská cesta 3-7, 851 01 Bratislava	Mobile content provider	2,348	188	1,887
Telekom Sec, s.r.o.	Kukučínova 52, 831 03 Bratislava,	Security services	7	(7)	10
Institute of Next Generation Networks	Poštová 1, 010 08 Žilina	NGN technology research and development	-	(110)	(251)
			385,209		

17. Inventories

	2010	2009
Cables, wires and spare parts	3,963	4,619
Phones, accessories for mobile communication	5,996	-
Other inventory including goods for resale	3,686	689
	13,645	5,308

The amount of write-down of inventories recognised as an expense is EUR 15 thousand (2009: EUR 732 thousand) which is recognised in cost of material and equipment.

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18. Trade and other receivables

	2010	2009
Trade receivables from third parties	101,381	47,081
Trade receivables from related parties (Note 26)	4,414	1,926
Other receivables from third parties	6,958	4,678
Other receivables from related parties (Note 26)	508	328
Derivatives	23	-
Dividends receivable (Note 26)	-	100,704
	113,284	154,717

Trade receivables are net of an allowance of EUR 26,969 thousand (2009: EUR 6,737 thousand).

In 2010 the Company sold uncollectible receivables with nominal value of EUR 1,193 thousand (2009: EUR 2,177 thousand) to a company specializing in the collection of overdue receivables for EUR 172 thousand (2009: EUR 314 thousand) and the related allowance was released.

Movements in the allowance for impaired trade receivables from third parties were as follows:

	2010	2009
At 1 January	6,737	7,453
Additions from merger	19,076	-
Charge for the year	5,346	2,940
Utilised	(2,473)	(2,647)
Reversed	(1,717)	(1,009)
At 31 December	26,969	6,737

No significant individually impaired trade receivables were included in the provision for impairment losses.

At 31 December, the ageing structure of receivables is as follows:

	Total	Neither past due nor impaired	< 30 days	31-90 days	91-180 days	181–365 days	> 365 days
2010	105,795	91,341	6,381	2,238	1,498	1,881	2,456
2009	49,007	43,820	3,131	691	378	668	319

Trade receivables that are past due as at the statement of financial position date, but not impaired, are from creditworthy customers who have a good track record with the Company and, based on historical default rates, management believes that no additional impairment allowance is necessary.

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19. Prepaid expenses and other assets

	2010	2009
Non-current		
Deferred activation fees	6,238	6,678
Easement	9,849	9,967
Accrued revenues	3,764	3,401
Other	2,566	2,299
	22,417	22,345
Current		
Deferred activation fees	4,514	3,742
Accrued revenues	8,185	1,732
Other	3,319	4,160
	16,018	9,634

20. Loans

The Company provided the following loans:

	Interest rate	Maturity	2010	2009
Institute of Next Generation Networks	0.640%	28. 12. 2013	-	299
Long-term loan			-	299
Deutsche Telekom AG	1.395%	14. 1. 2011	20,000	-
Deutsche Telekom AG	1.250%	3. 3. 2011	20,000	-
Deutsche Telekom AG	1.395%	14. 1. 2011	45,000	-
Deutsche Telekom AG	1.375%	15. 1. 2010	-	40,000
Deutsche Telekom AG	1.220%	12. 5. 2010	-	40,000
Short-term loan (Note 26)			85,000	80,000

The loans granted to Deutsche Telekom AG and Institute of Next Generation Networks are not secured.

In 2010 the Company created a 100% allowance for a loan granted to the Institute of Next Generation Networks in amount of EUR 289 thousand resulting in net value of EUR 0 (2009: EUR 299 thousand), due to inability on the part of the debtor to repay the loan and subsequent liquidation of the debtor (Notes 16, 30).

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21. Cash and cash equivalents

	2010	2009
Cash	163,298	75,312
	163,298	75,312

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term investments are made for varying periods between one day and three months, and earn interest at the respective rates.

22. Shareholders' equity

On 1 April 1999, Slovak Telekom became a joint-stock company with 20,717,920 ordinary shares authorized, issued and fully paid at a par value of EUR 33.2 per share. Deutsche Telekom AG acquired 51% of Slovak Telekom through a privatization agreement effective from 4 August 2000, by which the Company issued 5,309,580 new ordinary shares with a par value of EUR 33.2 per share. The shares were issued at a premium totalling EUR 386,139 thousand. All the newly issued shares were subscribed and fully paid by Deutsche Telekom AG. The privatization transaction also involved the purchase by Deutsche Telekom AG of 7,964,445 existing ordinary shares from the Slovak Government.

As of 31 December 2010, Slovak Telekom had authorized and issued 26,027,500 ordinary shares (2009: 26,027,500) with a par value of EUR 33.2 per share. All the shares issued were fully subscribed. Due to the change in the functional currency of the Company from the Slovak Crown to EUR as at 1 January 2009, there was an increase in the share capital of the Company of EUR 158 thousand. The statutory reserve fund of the Company was used to cover the increase in share capital.

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. On 27 April 2010, the General Meeting approved distribution of the prior year profit and resolved to transfer 10% of the prior year statutory profits to the reserve fund, with the remainder of the 2009 profit being retained.

In 2010 the Company declared and paid a dividend of EUR 5.11 per share (2009: EUR 14.17 per share). On the basis of this proposed appropriation, total dividends of EUR 132,933 thousand (2009: EUR 368,680 thousand) were paid in May and July 2010. Approval of the 2010 profit distribution will take place at the Annual General Meeting scheduled for 28 April 2011.

With effect from 1 July 2010, T-Mobile ceased to exist and was voluntarily dissolved without liquidation as of 30 June 2010. For integration of Slovak Telekom with T-Mobile refer to Note 4.

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23. Trade and other payables and deferred income

	2010	2009
Non-current		
Deferred income	8,023	7,512
	8,023	7,512
Current		
Trade payables to third parties	102,993	41,858
Trade and other payables to related parties (Note 26)	7,390	2,793
Amounts due to employees	18,252	10,217
Deferred income	39,902	28,990
Other	13,055	5,931
	181,592	89,789

24. Provisions

	Legal and regulatory claims	Asset retirement obligation	Loyalty programme	Termination benefits	Earn-out	Employee benefits	Other	Total
At 1 January 2010	2,185	-	-	3,509	-	1,358	464	7,516
Additions from merger	-	8,117	3,021	-	-	-	792	11,930
Arising during the year	234	88	431	4,066	2,235	1,536	4,986	13,576
Reversals	-	-	(109)	(448)	-	-	(156)	(713)
Utilised	(662)	-	(894)	(3,167)	-	(75)	(4,151)	(8,949)
Interest impact	-	231	-	-	143	93	-	467
At 31 December 2010	1,757	8,436	2,449	3,960	2,378	2,912	1,935	23,827
Non-current	-	8,436	-	-	2,378	2,912	334	14,060
Current	1,757	-	2,449	3,960	-	-	1,601	9,767
	1,757	8,436	2,449	3,960	2,378	2,912	1,935	23,827

Legal and regulatory claims
The provision includes amounts in respect of legal and regulatory claims brought against the Company. It is the opinion of the Company's management that the outcome of these legal and regulatory claims will not result in any significant loss beyond the amounts provided at 31 December 2010.

Asset retirement obligation
The Company is subject to obligations for dismantlement, removal and restoration of assets associated with its cell site operating leases. Cell site lease agreements may contain clauses requiring restoration of the leased site at the end of the lease term, creating an asset retirement obligation.

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Loyalty programme
The loyalty programmes provision primarily covers the cost of equipment, accessories and gifts provided in exchange for points awarded to participants of the loyalty programme. The provision is recognized on the basis of previous experience with the use of these points by loyalty programme participants.

Termination benefits
The restructuring of the Company's operations resulted in headcount reduction of 235 employees in 2010. The Company expects a further headcount reduction of 280 employees in 2011 as a result of an ongoing restructuring program. A detailed formal plan that specifies the number of staff involved and their locations and functions was defined and authorised by management and announced to the trade unions. The amount of compensation to be paid for terminating employment was calculated by reference to the collective agreement. The termination payments are expected to be paid within twelve months of the statement of financial position date and are recognized in full in the current period.

Earn-out
The earn-out provision relates to contingent consideration as part of consideration transferred when the Company obtained control of PosAm. The amount of the earn-out payment is conditional on the financial performance of PosAm. The amount will be payable only if PosAm meets the given performance target for the financial periods 2010 and 2011 cumulatively. The amount of earn-out provision is re-measured at each reporting date. Amount of EUR 2,235 thousand was recognized in value of PosAm investment.

Retirement and jubilee benefits
The Company provides benefit plans for all its employees. Provisions are created for benefits payable in respect of retirement and jubilee benefits. One-off retirement benefits are dependent on employees fulfilling the required conditions to enter retirement and jubilee benefits are dependent on the number of years of service with the Company. The benefit entitlements are determined from the respective employee's monthly remuneration or as a defined particular amount.

	Retirement benefits	Jubilee	Total
Present value of the defined benefit obligation			
At 1 January 2010	2,193	176	2,369
Interest cost	86	7	93
Current service cost	481	15	496
Past service costs due to plan amendments	5,205	26	5,231
Benefits paid	(53)	(22)	(75)
Actuarial gains	616	73	689
At 31 December 2010	8,528	275	8,803
Past service cost not recognised in the statement of financial position	(5,891)	-	(5,891)
Liability recognised in the statement of financial position at 31 December 2010	2,637	275	2,912

Past service costs in amount of EUR 4,173 thousand relate to amended terms of retirement benefit. Past service costs in amount of EUR 1,058 thousand relate to former T-Mobile employees, to which Slovak Telekom's Collective agreement applies since merger.

Principal actuarial assumptions, except for interest costs, used in determining the defined benefit obligation include the discount rate of 3.238%. Interest costs include the discount rate as at the beginning of the accounting period of 3.931 %. Average retirement age is 62 years. The expected growth of nominal wages is 1.575%.

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25. Commitments

The Company's non-current assets purchase commitments were as follows at 31 December:

	2010	2009
Non-current assets expenditures contracted for but not completed due within one year	11,143	15,182
Non-current assets expenditures contracted for but not completed due between one and five years	-	9,626
	11,143	24,808

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

	2010	2009
Operating commitments due within one year	29,366	24,864
Operating commitments due between one and five years	29,164	31,519
Operating commitments due after five years	8,207	11,991
	66,737	68,374

The Company has commitments under operating leases and other purchase contracts relating primarily to outsourcing of real estate management of EUR 5,873 thousand with Strabag, office rental of EUR 15,731 thousand with CBC and Polus, technological support of EUR 5,522 thousand with Nokia Siemens Network and provision of satellite digital TV with Magyar Telekom of EUR 16,894 thousand.

26. Related party transactions

	Receivables		Payables		Sales and income		Purchases	
	2010	2009	2010	2009	2010	2009	2010	2009
Deutsche Telekom AG	85,861	80,666	2,348	864	2,679	2,882	3,597	3,948
T-Home Group	735	335	3,146	143	3,999	1,031	5,709	540
T-Systems Group	669	351	965	487	4,216	3,910	2,269	3,295
T-Mobile Group	2,657	-	931	-	3,208	-	4,066	-
T-Mobile Slovensko premerger	-	101,905	-	1,299	10,692	120,771	4,849	11,240
Other	-	-	-	-	-	46	-	1
	89,922	183,257	7,390	2,793	24,794	128,640	20,490	19,024

The Company conducts business with its subsidiaries (T-Mobile Slovensko until 30 June 2010, PosAm, Zoznam, Zoznam Mobile, INGN, Telekom Sec) as well as with its ultimate parent, Deutsche Telekom AG and its subsidiaries, associates and joint ventures. Business transactions relate mainly to telephone calls and other traffic in the related parties' networks. Other transactions include data services, management, consultancy, other services and purchases of property and equipment. The Company purchased property and equipment in amount of EUR 2,965 thousand (2009: EUR 1,458 thousand).

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The Company granted Deutsche Telekom AG a short-term loan of EUR 85,000 thousand (2009: EUR 80,000 thousand). Interest related to the loan amounted to EUR 1,458 thousand (2009: EUR 1,466 thousand) (Note 20).

In April 2010 Zoznam and Zoznam Mobile declared dividend of EUR 450 thousand and EUR 1,750 thousand, which were paid in 2010. In June 2010 the General meeting of PosAm declared a dividend of EUR 458 thousand, which was paid in 2010.

In March 2009 the General Meeting of T-Mobile Slovensko declared a dividend of EUR 100,704 thousand, which was paid in 2010 (Note 9).

Compensation of key management personnel

	2010	2009
Management remuneration	2,212	2,310

The key management personnel, 20 in number (2009: 19) include members of the Board of Directors, Supervisory Board, members of Executive Management Board.

27. Contingencies

Legal and regulatory cases
On 8 April 2009, the European Commission ("Commission") opened proceedings against Slovak Telekom. The Commission is investigating whether the Company may have engaged in conduct obstructing competition in the Slovak Republic, in violation of Article 102 of the Treaty on the Functioning of the European Union ("TFEU") in particular whether the Company has engaged in refusal to supply and/or in margin squeeze conduct to the detriment of its competitors on the broadband market.

The investigation has proceeded through a series of questionnaires, to which the Company responded in a timely and professional manner. The Company has also adopted a pro-active approach to the investigation by submitting four "issues papers", substantiating why the Commission should not intervene in the present case. These papers were accompanied by reports from two independent experts, adding to their credibility.

On 28 January 2011, the Company met with the Commission to discuss the current status of the Commission's investigation. The Commission now has to decide whether to issue a Statement of Objections setting out its preliminary view. If proven, the allegations against the Company could lead to the Commission finding that the Company was in infringement of Article 102 TFEU and imposing a fine on the Company. In proceedings of this kind, fines are generally calculated on the basis of the company's prior year turnover. However, in the event that the Commission is able to establish so-called "parental liability" due to the "influence" that Deutsche Telekom allegedly exerts on the Company, this could be understood as the turnover of the group and could attain 10% of overall turnover. The Company's legal position is that the likelihood of the Commission issuing a ruling of infringement and imposing a fine is possible rather than probable and a provision has not been made in these financial statements. Should, however, the Commission decide to adopt an infringement decision, it is not possible at this preliminary stage of the case to predict the level of fine to which Slovak Telekom would be exposed.

On 27 September 2007 the Regional Court in Bratislava overturned the second stage decision of the Anti-Monopoly Office ("AMO"), which had imposed on the Company a penalty of EUR 29,377 thousand for not allowing competitors to access local lines (unbundling of local loops) and thus abusing its dominant position. The Company had provided in full against this penalty in 2005, but this provision was released after the Regional Court found in favour of the Company. Subsequently AMO initiated a new proceeding against the Company on this same issue and on 20 May 2009 the Company received from AMO the second stage decision imposing a penalty of EUR 29,377 thousand.

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The Company appealed against this decision on Regional court on 10 June 2009. On 23 June 2009 the Company received the Regional Court Resolution about enforceability postponement of AMO decision in this case. The Council of the AMO confirmed the first stage decision .The AMO did not substantially add any reasoning in comparison with a previous decision in 2007. Furthermore, the AMO Council did not take into account the binding legal opinion of the Regional Court Bratislava dated in 2007 by which all previous decisions in this case were cancelled. At the hearing on 3 December 2010 the Regional Court Bratislava decided and adopted the Company' arguments and released resolution by which was the Company's claim accepted and AMO resolution was cancelled in full. The written Court resolution was delivered to the Company by 21 December 2010. AMO appealed against the judgment of the Regional Court within period prescribed by law and the Supreme Court will decide in second stage court proceeding. As management believes that it is possible rather than probable that this case will result in an obligation to pay the penalty, a provision has not been made in these financial statements.

The Company has been charged by AMO with abusing its dominant position and violating competition law by price squeeze and tying practices. AMO imposed a penalty of EUR 17,453 thousand when issuing its second stage decision on 9 April 2009. The Company appealed against this decision on Regional court on 8 June 2009. On 22 June 2009 the Company received the Regional Court Resolution about enforceability postponement of AMO decision in this case. The first hearing of Regional Court on 12 May 2010 ended without final decision. Another argumentation and evidence are submitted to the Court, the date of proceeding is not defined yet. As management believes that it is possible rather than probable that this case will result in an obligation to pay the penalty, a provision has not been made in these financial statements.

On 10 September 2007 the Regional Court in Bratislava overturned the second stage decision of AMO, which had imposed on the Company a penalty of EUR 2,656 thousand for abusing its dominant position in tendering for complex telecommunication project. The Company had provided in full against this penalty in 2006, but this provision was released after the Regional Court found in favour of the Company. Subsequently AMO initiated a new proceeding against the Company on this same issue and on 4 May 2009 AMO issued its second stage decision imposing a penalty of EUR 2,423 thousand. The Company appealed against this decision on Regional court on 10 June 2009. On 23 June 2009 the Company received the Regional Court Resolution about enforceability postponement of AMO decision in this case. The first hearing of Regional Court on 25 May 2010 ended without final decision. The Court adjourned further hearing on 13 July 2010. The court postponed a decision on 10 August 2010. At the hearing the Regional Court Bratislava decided in favour of Slovak Telekom and AMO decision was cancelled in full. On 29 September 2010, AMO gave an appeal against decision of the Regional Court. Statement of the Company to the appeal was submitted to the Court on 19 October 2010. As management believes that it is possible rather than probable that this case will result in an obligation to pay a penalty, a provision has not been made in these financial statements.

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. Financial assets and liabilities

Fair values

Below is a comparison by category of the carrying amounts and fair values of all financial assets and liabilities that are carried in the financial statements:

	Carrying amount		Fair value	
	2010	2009	2010	2009
Financial assets				
Non-current				
– Held-to-maturity investments	39,266	-	39,344	-
Current				
– Cash and cash equivalents	163,298	75,312	163,298	75,312
– Held-to-maturity investments	43,079	31,023	43,110	31,123
– Term deposit over 3 months	60,000	-	60,000	-
– Trade receivables	105,795	49,007	105,795	49,007
– Derivative financial instruments held for trading	23	-	23	-
Financial liabilities				
Current				
– Trade payables	110,383	44,651	110,383	44,651

Cash and cash equivalents, derivative financial instruments held for trading, trade receivables and trade payables have short maturities and their carrying amounts at the reporting date approximate their fair values.

Term deposit relates to bank deposit with maturity 6 months.

The fair value of the held-to-maturity investments amounted to EUR 82,454 thousand at 31 December 2010 (2009: EUR 31,123 thousand). This value was established based on market values provided by banks who act as depositors of the securities.

If the interest rates of the held-to-maturity investments were 15 basis points higher/20 basis points lower and all other variables were held constant, the Company's profit for the year ended 31 December 2010 and equity at 31 December 2010 would increase/decrease by EUR 64 thousand/EUR 73 thousand (2009: EUR 32 thousand/EUR 42 thousand).

Forward foreign exchange contracts

As of 31 December 2010 the Company was a party to five foreign exchange forward contracts with maturity of one to five months to hedge anticipated future foreign currency expenditure in USD. While these contracts may provide effective economic hedges under the Company's risk management policies, they do not qualify for hedge accounting under the specific rules of IAS 39 and were, therefore, classified as held for trading upon initial recognition.

The net gain from the change in the fair value of derivative instruments was recognised in the income statement in the amount of EUR 17 thousand, net of tax of EUR 3 thousand for the year ended 31 December 2010.

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29. Audit fees

In 2010 the Company obtained from the audit company Ernst & Young statutory audit services in amount of EUR 170 thousand (2009: EUR 169 thousand), other assurance services in amount of EUR 169 thousand (2009: EUR 120 thousand) and other services in amount of EUR 43 thousand (2009: EUR 84 thousand).

30. Events after the reporting period

In 2011 conclusion of existence of Institute of Next Generation Networks is expected to be finished (Note 16). Retained loss at 31 December 2010 was EUR 281 thousand.

There were no events, which have occurred subsequent to the year-end, which would have a material impact on the financial statements at 31 December 2010.

Independent Auditor's Report

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Independent Auditors' Report

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

We have audited the accompanying separate financial statements of Slovak Telekom, a.s. ('the Company'), which comprise the statement of financial position as at 31 December 2010 and income statements, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and presentation of separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these separate 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 separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of separate financial statements that give a true and fair view 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 separate 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 separate financial statements give a true and fair view of the financial position of the Company as at 31 December 2010, 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.

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 27 to the financial statements. The Company is being investigated by the European Commission whether it may have engaged in conduct that forecloses competition in the Slovak Republic in violation of Article 102 of the Treaty on the Functioning of the EU. The ultimate outcome of the matter cannot presently be determined, and no provision for any liability that may result has been made in the financial statements. Our opinion is not qualified in respect of this matter.

10 March 2011
Bratislava, Slovak Republic

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

Ing. Peter Matejička
SKAU Licence No. 909

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