Contents

Company profile

We are a modern telecommunications company with a long history and broad range of products and services. We became a joint stock company on 1 April 1999 following registration in the Companies Register of the District Court of Bratislava I., Section Sa, Entry No. 2081/B. The Extraordinary General Meeting held on 24 October 2003 approved a change of the business name of Slovenské telekomunikácie, a. s. to Slovak Telecom, a. s. The new name Slovak Telecom, a. s. came into effect on 15 January 2004 upon registration in the Companies Register of the District Court of Bratislava I. The company's registered stock capital as at 31 December 2003 was SKK 26,027,500,000. The registered seat of the company is Námestie slobody 6, 817 62 Bratislava.

As per the extract from the Companies Register, our key business activities include:

- transmission of all types of signals and information over public telecommunications network (the "PTN"),
- provision of telecommunications and radio-communications services against payment (transmission, processing, creation and mediation of information) for individuals and legal entities,
- establishment, operation, construction, maintenance, and servicing of telecommunications facilities, networks, and information technologies owned by other entities under concluded contracts,
- sale, lease, and connection of telecommunications devices and networks to PTN end points,
- performance of activities related to the preparation and performance of tasks in emergency situations and during states of national defence emergency in line with the orders of competent authorities,
- preparation and updating of the information database for information systems in the telecommunications sector,
- publishing, distribution, and sale of telephone directories of subscribers to telecommunications services (on various media),
- arrangement of the connection of a specified part of the PTN to the international telecommunications network, concluding of international telecommunications agreements that are related to the business activities of Slovak Telecom, proposing prices and tariffs for domestic and international services, including billing and clearing thereof.

The shareholders of the company as at 31 December 2003 were Deutsche Telekom AG with 51% of shares, the Ministry of Transport, Posts and Telecommunications of the Slovak Republic with 34% of shares, and the National Property Fund of the Slovak Republic with 15% of shares.

Deutsche Telekom AG ranks among the largest telecommunications companies in Europe and is one of the world's "engines" of innovation in this sector.

The year 2003 saw us undergo more changes and restructuring of the entire company. We succeeded in stabilising the most important processes, activities and economic results of the company. As at 31 December 2003 we had 1,414,514 telephone lines throughout Slovakia, inclusive of ISDN B-channels and public payphones, and almost 86% of our network had been digitalised. We are one of the largest employers in Slovakia with an average full-time equivalent of 8,094 at the end of 2003.

From mid-2003 our company started to prepare for a change of its business name, logo and also for the implementation of a new modern corporate identity. The change of corporate identity was the outcome of dynamic changes in our company and reflection of a new strategy. Our aim is to be perceived not only as a telecommunications operator of voice services for residential customers, but also as a universal telecommunications operator – a provider of comprehensive communications services for both residential and business customers. The new corporate identity, a part of which is a new brand, a new business name, brand values, vision and mission, together with the corporate culture, is supposed to reflect the changes made in the company in relation to customers and within the company itself, and to harmonise the customer perception of our firm with the quality and range of our services.

Our company intensively supports the accession of Slovakia to the European Union. We initiated and are actively participating in the development of "informatisation" of society as a whole by means of implementation of the eSlovakia project, by which we connected hundreds of Slovak schools to the Internet.

Subsidiaries

As a result of the restructuring of Rádiokomunikácie, o. z. in 2002, Slovak Telecom, a. s. founded two subsidiaries – RK Tower, s. r. o. and RK Transmission, s. r. o., with Slovak Telecom as the sole partner. The activity of RK Tower is focused mainly on the lease of rooms in premises that it owns (towers, poles, buildings, etc.). In 2003 the transmission activities, originally planned to be provided by RK Transmission, were provided by the Rádiokomunikácie branch.

Interests in other companies

Slovak Telecom, a. s. has a 53% capital share in EuroTel Bratislava, a. s., a provider of mobile communications services and data networks operator. EuroTel Bratislava, a. s. operates three networks – digital GSM network (900 and 1800 MHz), public data network and analogue NMT network.

Involvement in international organisations

We are a member of various Slovak associations by profession and industry. We are represented in the standardisation, radio-communications, and development sectors of the International Telecommunications Union (ITU). Our company is a shareholder in the satellite organisation EUTELSAT (European Telecommunications Satellite Organisation), EURESCOM (European Institute for Research and Strategic Studies in Telecommunications), and is a member of ETNO (European Telecommunications Network Operators Association), ETIS (e- and Telecommunications Information Services), ETSI (European Telecommunications Standards Institute), and also participates in various international projects and forums.

Corporate identity

Our corporate vision

Our vision is to be the most reliable and customer friendly service company integrating communication and information worlds, committed to the positive development of the Slovak Republic and quality of life here.

Our corporate mission

Our mission is:

- to be personally responsible for each customer call, understand customer needs, deliver what we promise and constantly improve our services to be perceived as the most affordable, reliable and innovative partner for our customers,
- to utilise our know-how in service integration for the benefit of our customers to make their business and private lives easier,
- to provide state-of-the-art telecommunications infrastructure and products enabling business growth in the country and strengthening the position of the Slovak Republic in the region,
- to be committed to financial growth of the company,
- to attract, motivate and develop capable, committed staff and reward performing employees.

Company values

ST SPIRIT – company values we acknowledge:

- **S**uperior value – we strive to increase the company value.
- **P**assion for our customer – needs of our customers are our priority.
- **I**nnovation – we recognise innovation as the key principle.
- **R**espect – mutual respect is the basis for work in our big team.
- **I**ntegrity – only the integrity of words and acts proves our responsible approach to ourselves and to those around us.
- **T**op excellence – the market demands quality and we are able to deliver it.

Employee Code of Ethics

The Employee Code of Ethics represents the basic document for shaping the corporate culture. It derives from our vision and values and upholds our corporate strategy. At the same time it is an expression of our ties to the visions, values and strategy of our parent company, Deutsche Telekom.

The Code of Ethics with its principles of behaviour acknowledged by our employees lays the foundations for another document – Customer Orientation and Behaviour Standards. These standards contain actual, practical instructions and examples of behaviour. We live them in relation to our customers and external partners, as well as our colleagues, i.e. our internal customers. The recognition of the Employee Code of Ethics is the primary condition for successful co-operation on the basis of shared principles and rules. Observing its provisions we become a trustworthy partner for our customers and colleagues.

Address of Horst Hermann, Chairman of the Board of Directors

I am pleased to say that the year 2003 was a successful one for Slovak Telecom. Impressive growth of economy had a positive impact on the development of the Slovak telecommunications market. The company maintained its leading position also after 1 January 2003 when liberalisation of the Slovak telecommunications market of fixed voice services became legally feasible. In the course of the year our competitors started to pursue their respective activities and look for their place on the market. Adoption of the new Act on Electronic Communications which is based on the regulatory framework of the European Union is, in our opinion, another positive outcome of 2003.

The year 2003 was a difficult one mainly due to changing market conditions, growing competition, and intensive introduction of new telecommunications technologies. Shareholders' objectives broken down to smaller tasks required the willingness of the entire Slovak Telecom team to work hard. Demanding process of restructuring succeeded in stabilising the financial results, improving the quality of provided services and bringing new technologies for all customer segments.

In the middle of 2003 our company's shareholders adopted a decision regarding the change of the business name and corporate identity. The aim of the decision was to support the change in perception of the company – a shift from a telecommunications operator of voice services for residential customers to a provider of comprehensive communications services for all customer segments. Slovak Telecom has been a member of the global telecommunications group of Deutsche Telekom AG for three years. In a modern technology-driven environment the change of corporate identity was a logical and inevitable step.

The new brand promises to bring solutions for better life to all inhabitants of Slovakia at the time when the country responsibly prepares to join the European Union. I am glad that Slovak Telecom has become an initiator and significant supporter of Internet and PC penetration in Slovakia by means of its own project called eSlovakia. The activities of the project, such as connecting of elementary and secondary schools to the Internet under mutually advantageous conditions, pilot opening of InfoKiosks in five selected towns and Internet courses www.každom.veku for the public helped Slovakia establish itself in the European community.

Although facing the difficult conditions of 2003, the company achieved its internal stability and therefore I would like to extend my thanks to our customers, employees, management, as well as to our shareholders and supervisory bodies. I do believe that the year 2004 will bring us even more achievements.

Horst Hermann
Chairman of the Board of Directors
of Slovak Telecom, a. s.

Address of Miroslav Majoroš, President/CEO

The year 2003 was a breakthrough year both for me personally and the company as a whole. Despite the many challenges that we faced at the beginning of the year, we can be satisfied with the results attained in 2003.

1 January 2003 saw liberalisation of the Slovak telecommunications market. We expected new entities with broad portfolios of telecommunications services and solutions targeted mainly at business customers to enter the market. Our company had prepared for the end of its monopoly position in the field of fixed voice services for some time – it had satisfied all the legislative requirements and created the basis for providing new modern telecommunications solutions.
At the same time, in order to fulfil the essential prerequisite for full liberalisation of the telecommunications market, we negotiated network interconnection with other operators. The outcome of our effort was that we signed the first interconnection contract at the end of the year. The aim of the negotiations was to support facility-based competition. In other words, the aim was to make other operators invest in their own infrastructure and lay the foundations for fair competition.

If the year 2002 was a year of change for our company, then 2003 was certainly a year of overall stabilisation in all areas of our business. Despite the competitive environment the financial results of the company show stabile and sustainable development. Profitability in terms of EBITDA margin decreased only slightly from 2002 balance of 49.8% to 47.3 % in 2003 compared to 47.4% in 2001. Our capital investments and financial plans were and are targeted on further digitalisation of the fixed network, with special attention to data and IP services. Notwithstanding the fact that mobile operators were growing stronger on the voice market, we increased the success rate of our sales activities, especially with regard to the business customer segment and improved the quality of all our operational activities. Our strategy was to bring innovative products in the areas of communication and Internet services and continuously improve the area of customer care. This effort resulted in a considerable improvement in the customer satisfaction index (evaluated on the basis of internationally accepted criteria) in both residential and business customer segments.

Last year we introduced to our direct customers and other providers of Internet services the possibility of enjoying the benefits of broadband Internet technology ADSL. Our response to the ever increasing demands of our business customers was the introduction of modern MPLS technology which enables more efficient convergence of voice and data transmissions. We worked intensively on network digitalisation in order to have a fully digitalised network by the end of 2004. The strategy of our own network infrastructure development was influenced by the advent of IP technologies and our company undertook the pilot implementation of an NGN network in the Deutsche Telekom AG Group.

Long-term positive changes related to the product portfolio and services, customer care and more efficient functioning of the company culminated in the decision to change the business name of the company and introduce its new corporate identity. We believe the new corporate brand will be a very strong communication tool and will help strengthen the relations with our customers.

In 2003 we supported many projects and activities in the areas of charity, humanity, and education. We fostered many exceptional cultural projects and sporting events. In the future we will take part in pro-European projects to present ourselves as an exemplary corporate citizen.

I would like to thank all the employees for their effort and the work they have done and I believe we will all live our new vision – to be the most reliable and customer friendly service company integrating communication and information worlds, committed to the positive development of the Slovak Republic and the quality of life here.

Dipl. Ing. Miroslav Majoroš
President/CEO
of Slovak Telecom, a. s.

Executive Management Board

Dipl. Ing. Pavol Kukura, PhD.
Dr. Torsten Minkwitz
Dipl. Ing. Herbert Müller
PhDr. Anna Hudáková
Dipl. Ing. Miroslav Majoroš
Dr. Mark Peter Montagne von Lillienskiold

Dipl. Ing. Miroslav Majoroš, President/CEO

He studied at the Faculty of Electronic Engineering of the Slovak Technical University in Bratislava and has worked in several top managerial positions in companies such as Slovenská televízia (Slovak TV) and IBM in Slovakia and abroad. He was appointed to the post of President/CEO of Slovak Telecom, a. s. in January 2003 and was elected a member of the Board of Directors in April of the same year.

Dr. Mark Peter Montagne von Lillienskiold, Senior Executive Vice-President/CFO

He studied law at Bonn University. He has worked in top managerial positions for companies such as Bayer, B.A.T., Deutsche Telekom, and Matáv. He was appointed to the posts of Senior Executive Vice-President/CFO and member of the Board of Directors in December 2000.

Dipl. Ing. Herbert Müller, Senior Executive Vice-President/COO

He studied at the Technical University in Berlin. He has worked many years in top managerial positions for the parent company Deutsche Telekom and its foreign acquisitions. He joined the company in November 2002 in the post of Senior Executive Vice-President/Chief Marketing and Sales Officer, and was appointed to the post of Senior Executive Vice-President/COO in August 2003.

PhDr. Anna Hudáková, Executive Vice-President/CHRO

She studied at the University of P. J. Šafárik in Prešov and her professional background includes senior management positions in companies such as Coca-Cola Amatil Slovakia and Reemtsma/Slovak International Tabak. She was appointed to the post of Executive Vice-President/CHRO in January 2001.

Dr. Torsten Minkwitz, Executive Vice-President/CIO

He studied at universities in Braunschweig, Karlsruhe and Austin (Texas, USA). He has worked for the parent company Deutsche Telekom in various managerial positions for many years. He was appointed to the post of Executive Vice-President/CIO in January 2001.

Dipl. Ing. Pavol Kukura, PhD., Executive Vice-President/CSRO

He studied and worked at the Faculty of Electronic Engineering of the Slovak Technical University in Bratislava. He worked in several international companies, e.g. Alcatel, AT&T, and Lucent Technologies, while in the latter two he held senior managerial positions. He was appointed to the post of Executive Vice-President/CSRO in October 2003.

Corporate bodies

Board of Directors

Horst Hermann	Chairman since 10 April 2003
Dr. Kai Höhmann	Chairman until 10 April 2003
Ing. Štefan Bugár	Vice-Chairman
Dr. Mark Peter Montagne von Lillienskiold	Member
Ing. Peter Stropko	Member
Dr. Ralph Rentschler	Member since 10 April 2003
Ing. Miroslav Majoroš	Member since 10 April 2003
Ing. Gabriela Vavríková	Member since 10 April 2003
Ing. Jozef Pavlík	Member until 10 April 2003
Dipl. Ing. Hans Albert Aukes	Member until 10 April 2003
Fridbert Gerlach	Member until 10 April 2003

Supervisory Board

Ing. Martin Velecký	Chairman since 10 April 2003
Ing. Anton Závodský	Chairman until 10 April 2003
Dr. Frank-Reinhard Bartsch	Vice-Chairman
Ing. Pavel Kyman	Member
JUDr. Eleonóra Valentová	Member
Albert Matheis	Member since 10 April 2003
Hans-Peter Engel	Member since 10 April 2003
Ing. Alojz Glinský	Member since 19 December 2003
Ing. Jozef Opát	Member since 19 December 2003
Ing. Ľudovít Hintoš	Member since 19 December 2003
Dr. Klaus Nitschke	Member until 10 April 2003
Dr. Ralph Rentschler	Member until 10 April 2003
Ing. Viliam Podhorský	Member until 5 December 2003
Ing. Štefan Genčúr	Member until 19 December 2003
Ján Martinovič	Member until 19 December 2003

Organisational structure

Corporate bodies

General Meeting

Supervisory Board

Board of Directors

Slovak Telecom, a. s.

Unit reporting to CEO

Strategy & Regulatory Affairs Unit

Operations Unit

Human Resources Unit

Information Technologies Unit

Finance Unit

Branch

Rádiokomunikácie, o. z.

Organisational structure of the company

The organisational structure of Slovak Telecom, a. s. is a part of the management system with the following structure:
- corporate bodies,
- Slovak Telecom, a. s.,
- branch,

aiming at efficient running of company's business.

Corporate bodies

General Meeting is the supreme body of the company. The scope of powers of the General Meeting is defined by the Articles of Association.
Supervisory Board is the supervisory body of the company. It oversees the activities of the Board of Directors and company's business activities.
Board of Directors is a statutory body of the company. It is authorised to act on behalf of

the company in all matters and represents the company in dealings with third parties. The Board of Directors manages the company's activities and adopts decisions on all matters of the company, unless these fall within the powers of other corporate bodies by law or Articles of Association or they are delegated to other corporate bodies by the Board of Directors. The Board of Directors appoints the members of the Executive Management Board of the company and delegates necessary powers.

Slovak Telecom, a. s. has the following structure:
- Unit reporting to Chief Executive Officer
- Finance Unit reporting to Chief Finance Officer
- Operations Unit reporting to Chief Operating Officer
- Human Resources Unit reporting to Chief Human Resources Officer
- Strategy & Regulatory Affairs Unit reporting to Chief Strategy & Regulatory Officer
- Information Technologies Unit reporting to Chief Information Technologies Officer.

The CEO and the above mentioned chief officers form the Executive Management Board.

Branch is an organisational unit registered in the Companies Register.
- Rádiokomunikácie, o. z., headed by branch director, provides for distribution and broadcasting of radio and television signals all over Slovakia.

Shaping the telecommunications market

The year 2003 was the year of liberalisation, which was legally introduced on 1 January 2003. From this date the basic voice service sphere was liberalised. Citizens of the Slovak Republic were thus given the right to choose their telecommunications operator that would provide them with the basic voice service.

We negotiated the interconnection of networks

We took a very active part in the telecommunications market liberalisation process. The Act No.195/2000 Coll. on Telecommunications imposed upon us the obligation to enable the interconnection of our telecommunications network with the networks of other operators. The Telecommunications Office of the Slovak Republic received our Reference Interconnection Offer already at the beginning of 2003. The offer became the basis for negotiations with alternative operators regarding interconnection of networks for the provisioning of voice services. As part of the negotiations, all authorised operators were presented a draft contract on interconnection. The first contract was signed with ConnSpec Telekom, s. r. o. on 25 November 2003.

Legislative changes

The outcome of numerous parliamentary sessions devoted to the telecommunications sector was the adoption of a new Act on Electronic Communications, which was approved by the National Council of the Slovak Republic on 3 December 2003 and entered into effect on 1 January 2004. The principal objective of the act was the implementation of the new regulatory framework of the European Union to Slovak law and elimination of shortcomings in applicable telecommunications legislation.

The Act on Electronic Communications has defined new obligations for undertakings with significant market power on the relevant market (SMPs), such as local loop unbundling, issuing of a reference offer for access, interconnection or leased lines. It also defined the method how the Telecommunications Office of the Slovak Republic is to determine the SMP undertakings. The act also extended the jurisdiction and strengthened the position of the Telecommunications Office of the Slovak Republic. However, the adopted law left the financing of the Office within the budget of the Ministry of Transport, Posts and Telecommunications of the Slovak Republic, a fact criticised by the European Union several times.

Stabile market position

In the course of 2003 we paid more attention to strategic matters considering the expected changes in the regulatory area, an increase in competition on the voice services market, as well as the saturation of the market of mobile services. Every one of us participated in the implementation of the strategic direction "Go-to-Market – Business Excellence – ST Team". In order to better satisfy the needs of our customers we introduced the IP (Internet Protocol) strategy, shortened the service installation times and significantly improved the quality of services provided. Nevertheless, we still kept in mind further implementation of changes in the area of corporate culture with the aim to create a compact team of professionals that is, thanks to modern communication technologies, the greatest asset of our company.

Preparations for the change of business name and corporate identity

In the second half of 2003 our company was preparing for the change of its business name and logo, and for the introduction of the newly created corporate identity. By means of an identity change we wanted to ensure that our customers started to perceive us as the provider of comprehensive communication services for all customer groups. The reason was simple – we wanted customers to choose our company – our products and services – from among all other operators. Not only the corporate brand project, but also the entire long-term process of changes within our company, was subject to this objective.

New challenges in 2004

We expect that thanks to the adopted Act on Electronic Communications the competition will become more active than it was to date. We also await expansion of the coverage of the territory of the Slovak Republic with DSL technology. One of the most demanding tasks set by our shareholders is the achievement of a 100% network digitalisation rate. The accession of Slovakia to the European Union in May 2004 will certainly be a milestone that will significantly influence also the situation on the telecommunications market.

Knowing today the customers' wishes of tomorrow

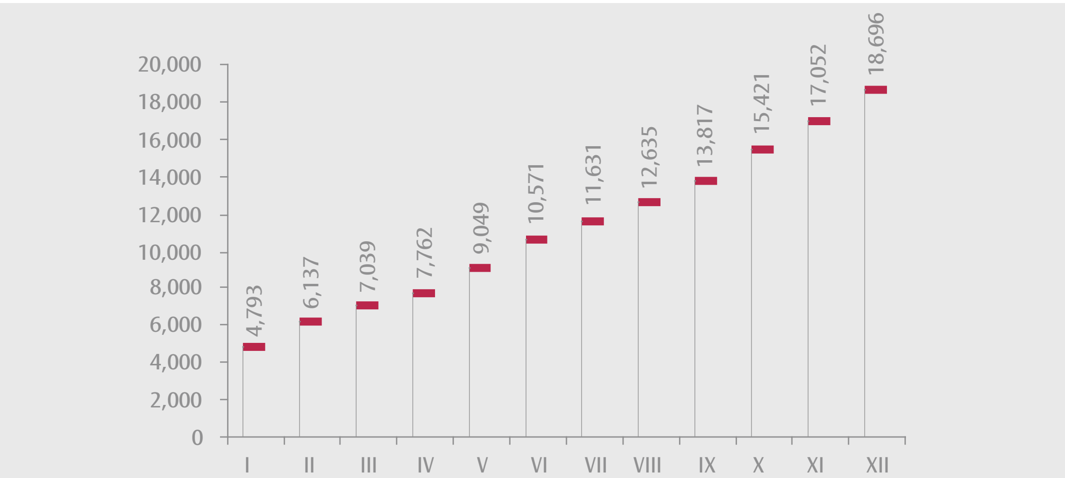
A significant change that helped assure first-class products and services for our customers was the merger of two organisational units – the Marketing and Sales Unit and the Network Infrastructure Unit. By putting these two under the common umbrella of the Operations Unit, we achieved a synergic effect by means of which we successfully dealt with current market challenges.

Reliability and customer orientation at the centre of our attention

In 2003 the telecommunications market was characterised by very strong competition, especially in the area of voice services. In this context we followed a distinct strategy – to design our products according to customers' needs, to provide a broad product portfolio for various customer segments, and to offer them attractive prices to increase their satisfaction.

Almost all calling plans were launched in 2002 and enjoyed a notable increase in usage throughout 2003. At the end of 2003 we already offered 12 different optional calling plans, which could be combined with 2 Internet packages. As a result, the customer gained dial-up Internet connection with time benefit. We were able to satisfy the needs of all types of customers – those who are extremely keen on telephone communications (ST Maxi, ISDN Dynamik), residential customers who mostly receive telephone calls (ST Mini) or business customers taking advantage of Business Partner calling plans. The charts below illustrate the development of selected calling plans over 2003.

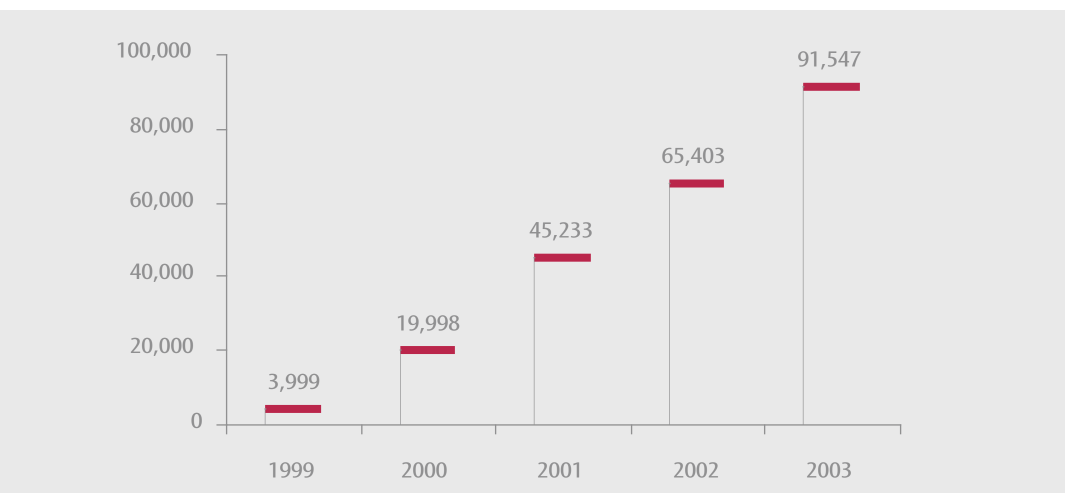
Development of the No. of lines of the ST Maxi calling plan in 2003



Development of the No. of lines of the ST ISDN Dynamik calling plan in 2003

In 2003, the ST ISDN success story continued. At the end of the year, the company had 74,562 ISDN BRA (Basic Rate Access) and 997 ISDN PRA (Primary Rate Access) customers, which represented a 43% increase of the total number of ISDN customers compared to the previous year. ST ISDN has become a telecommunications standard for many business users in Slovakia. In the last quarter of 2003, we started to open up the residential market for ISDN communications. At the end of the year ISDN lines accounted for more than 12% of the total number of telephone lines operated by our company.

In 2003 we recorded the highest increase in ST Online customers in the history of Internet services provisioning. More than 26,000 new dial-up customers have joined us in the past 12 months, 40% of which were business customers and small and medium-sized enterprises. With the total of 91,547 customers at the year end, we strengthened our leading position on the Internet dial-up market.



Development of ST Online dial-up customers, 1999 – 2003

In 2003 the quality of our work was awarded several times: The Most Reliable Internet Service Provider in Slovakia (Readers' Digest Výber); The Most Successful Company in the Internet Business in 2002 (Slovenská komora mladých); The Best Brand among Internet Providers (independent research of the GfK agency).

Integrating the communication and information worlds of our customers

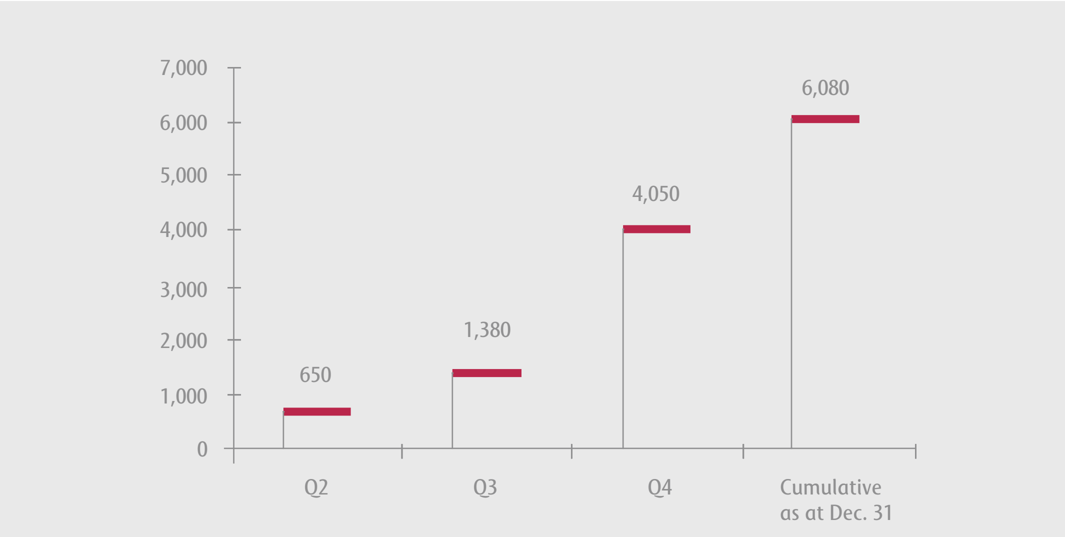
Business customers were offered solutions integrating voice and data services using leading-edge technology. We know that large companies need specific solutions for their external and internal communication needs. We therefore designed our voice and data services portfolio in a way that allows us to tailor each solution to the customer's wishes. In 2003 the most frequent solutions included the VPN (Virtual Private Network) on a base of IP MPLS (Internet Protocol Multiprotocol Label Switching), ATM (Asynchronous Transfer Mode), Frame Relay, Leased Lines, and Dial-up connections. Into these solutions we integrated Business Internet, WEB Housing, ST DSL (Digital Subscriber Line), and traditional voice services such as Toll-Free Number 0800, Shared-Cost Number 0850, and Premium Rate 0900. Our solutions for business customers were often supplemented by specialised on-site services provided by third parties as part of the ST Partner Management programme. In 2003 we offered our customers Service Level Agreements as a quality guarantee for services rendered.

Success thanks to state-of-the-art technology

ADSL technology (Asymmetric Digital Subscriber Line) enabled the transmission of large data volumes using conventional telephone lines. Through ST DSL we provide business and residential customers with access to broadband services. Our ST DSL technology is based on the existing infrastructure.

In the course of 2003 we introduced three DSL access products. In June we launched the ST DSL 768 product with an access speed of 768 kbps downstream and 128 kbps upstream. As of 1 October the ST DSL 1500 service extended the portfolio, and finally on 1 November the ST DSL 384 service was launched targeting the residential market.

A logical supplement to access products is the broadband Internet service – ST DSL DATA, launched in June 2003. In November we were the first company on the Slovak telecommunications market to offer Internet access without data volume limit – DSL FLAT. The online services portfolio was enriched by antivirus protection (Antivirus MAIL) and the possibility to send SMS from our web mail application.



DSL service order development

Positive shift in perception of price-friendliness of the company

On 1 June 2003 we introduced an attractive weekend rate for local and long distance calls for a period of 3 months. At weekends our customers made all local and long distance telephone calls for free after the third minute – the price of a ten-minute long distance weekend call dropped from SKK 15.00 to just SKK 4.50 (excl. VAT, ST Standard calling plan). On 1 September 2003, we once again significantly cut the rates of long distance calls by providing free calls after the third minute, valid only for long distance calls, but available every workday from 7.00 p.m. till 7.00 a.m. and during weekends and bank holidays. This offer was applied automatically to all residential telephone lines until the end of 2003. The increase in long distance traffic exceeded 100% and was clear proof of the offer's success.

Another key component of the 2003 price campaign was a fixed line installation for just SKK 1. The first round for new fixed line customers started in June and lasted for 3 months. From 1 October a similar campaign for ISDN customers was started. Finally, this installation benefit was made available also to new ST DSL customers as of 1 November.

During 2003, prices of international calls dropped on average by 20%. Other call prices dropped considerably as well – especially in business calling plans (by 16.3% in fixed to mobile calls, by 19.5% in long distance calls).

Thanks to a comprehensive offer of attractive prices for MPLS VPN (dropped by 15% on average), our company succeeded in several tenders posted by large Slovak enterprises.

Advertising campaigns and marketing communication projects contributed to significant strengthening of the image of the company brand as well as to supporting products in the areas of voice and Internet services and data solutions. Regular research results have proven that our campaigns were among the best in Slovakia. Their creativity has been awarded several times with Golden, Silver and Bronze 'Klinec' awards.

Along with standard marketing communication, we also worked intensively on the top project of the second half of 2003 – the Rebranding Project. Within the project we prepared the new brand, logo, slogan, brand values, and communication strategy.

Good business partner

Successful implementation of segmentation in 2002 was followed by the strengthening of segment and sales channel management. The positive appraisal of our effort by customers was also reflected in the regular Customer Satisfaction Survey measured using the TRI*M Index.

Our sales force in direct contact with customers took part in various training sessions focusing on professional know-how and sales and communications skills. The regular cycle of training sessions, education enhancement and mystery shopping proved to be efficient and was very much appreciated by the customers.

We completely rebuilt our sales points in 2003. Their interior design was carefully created to reflect the requirements of a modern, dynamically developing telecommunications company. The sales floor was divided into interlinked virtual zones – for residential customers, business customers, CPE (Customer Premises Equipment) testing and the most popular zone, the one where customers can surf the Internet and test ADSL access in selected sales points. The new network of sales points met all the demanding criteria and is among the most attractive on the Slovak telecommunications market.

In 2003 we created a team of business advisors who personally visited selected small and medium-sized enterprises and helped them resolve their individual requirements. Throughout the year the sales results in this segment progressively improved.

In addition to traditional activities, the standard product portfolio and great care of our largest customers based on individual approach; in 2003 we also created a specialised organisational unit – Solutions Management Subunit. Its main task is to deliver premium standard solutions prepared in the form of projects in which the customers themselves actively participate.

In 2003, we succeeded in several tenders called by our customers (see attached reference list). We persuaded them that we were the right partner to help them integrate their communication and information worlds. We offer them a new level of quality and tailor-make our products and services to meet their specific needs and so enable them to increase efficiency.

Thanks to a major improvement in sales methods, especially through our contractual partners, we managed to achieve very good results in 2003 – especially in ISDN sales. The indirect sales area saw successful launch of two new projects – Sale of Telephone Cards through authorized partners (distribution companies) and the Brand Shop Project, which will ensure sale of our products and services also in areas where our points of sales are no longer available.

On the same day that we introduced DSL, we provided all Internet Service Providers (ISPs) with the possibility of offering DSL connection to their customers by creating the ISP Gate service. All Internet service providers (9 in total) offering the DSL service have taken advantage of this offer since.

In March the new Interconnect Billing System was implemented for national carriers. The system brought the swifter and accurate exchange of billing data with licensed voice services operators in the Slovak Republic. Furthermore, the new system guarantees high flexibility when introducing new products for carriers.

The new Interconnect Billing System for international traffic was launched in October 2003. The system provides accurate data for monthly reporting of costs and revenues. It enables daily traffic reporting as well as immediate rerouting of traffic, if necessary, to achieve the highest quality and best financial alternative.

In 2003 we took a significant step by providing our wholesale customers with backbone network solutions. We have considerably increased the capacity of their Private Data Networks, which enable connection of all their nodes throughout Slovakia.

Responsibility for each customer request

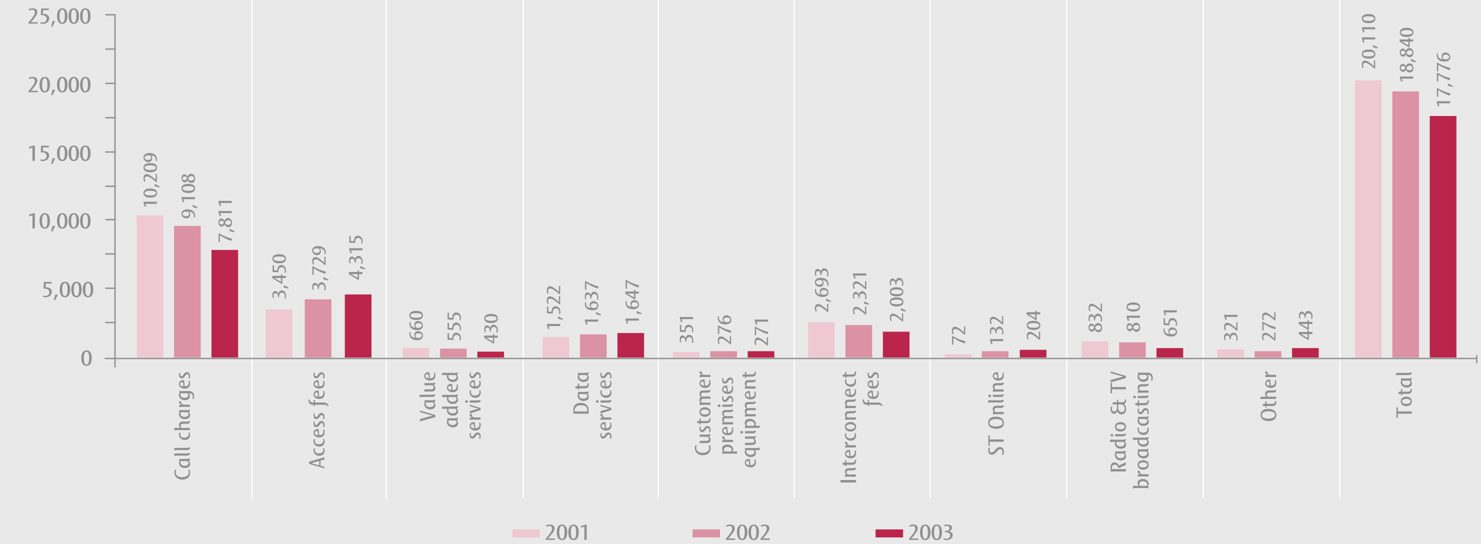
In 2003, we implemented a new system for information and operator assisted services and moved the centre providing information about national and international traffic from Bratislava to Košice and Bytča.

The two Call Centres in Košice and Žilina (0800 123 456 and 0800 123 500) and the Technical Support Centre for ST Online (0800 123 777) employed 246 operators at the end of 2003. They are ready to serve our customers free-of-charge 365 days a year. Besides receiving telephone calls the Call Centres started to actively offer selected products and services in 2003. Customers could therefore improve their communication directly from their homes and offices. Our largest customers were allocated a special number and their own call centre operator to exclusively take care of their requirements.

Sharing responsibility for financial stability of the company

Total revenues in 2003 came to SKK 17,776 million according to International Accounting Standards. In 2003 revenues from the voice service accounted for 68% of total revenues (SKK 12,126 million). Compared with the previous year, total revenues fell by 5.6%. The decrease was caused by the loss of market share in favour of our competitors, but also by price cuts, which were appreciated by our customers.

Revenue development in 2001 – 2003 (SKK million)

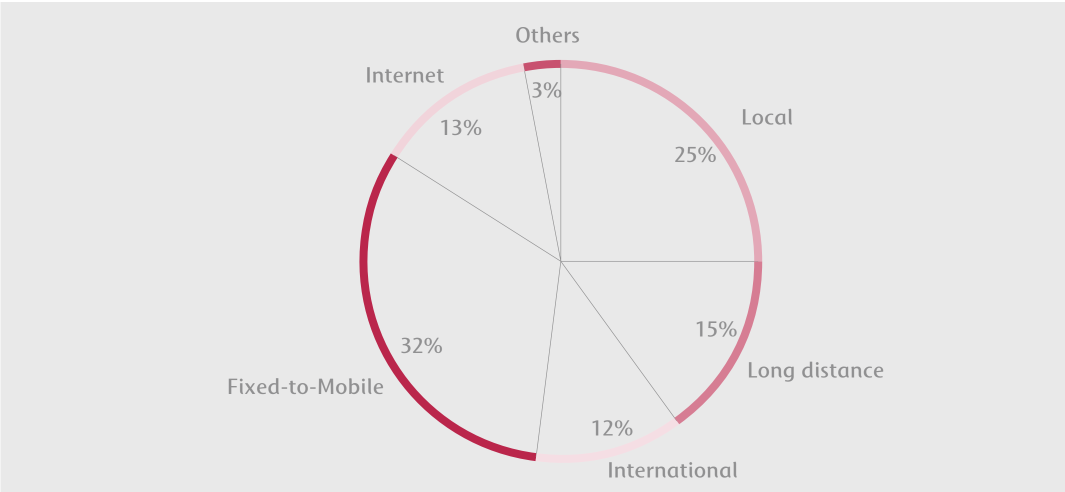


In the first year of liberalisation of Slovakia's telecommunications market, competition in the area of voice services continued to grow, marked by a price war with mobile operators, which led to a drop in profit margins in this part of the telecommunications market.

Call charges accounted for 64% of revenues from voice services in 2003. Call charges in the business customer segment represented the largest share (68%).

With respect to calls split by destination, there was a rise in the number of calls made to the Internet. These calls accounted for 13% of revenues in 2003 compared to 10% in the previous year. At the end of 2003, our customers were using 1.41 million telephone lines, including ISDN B-channels and public payphones.

Call revenues
– split by destination



We deliver what we promise

With the new go-to-market model for residential, business and wholesale segments, we are in a position to offer tailor-made products, services and solutions and satisfy the special communication needs and individual requirements of our customers. We feel responsible for the ongoing improvement of service quality to the benefit of our customers and for providing solutions that make their lives better.

Reference list

VÚB, a. s.
Slovenská sporiteľňa, a. s.
Allianz – Slovenská poisťovňa, a. s.
Tatra banka, a. s.
OTP Banka Slovensko, a. s.
Národná banka Slovenska
ĽUDOVÁ BANKA, a. s.
HVB Bank Slovakia, a. s.
ISTROBANKA, a. s.
Poštová banka, a. s.
KOOPERATIVA poisťovňa, a. s.
UNIQA poisťovňa, a. s.
Union poisťovacia a. s.
Dexia banka Slovensko, a. s.
Česká poisťovňa – Slovensko, a. s.
Ústredie práce, sociálnych vecí a rodiny
Ministerstvo obrany SR
Ministerstvo vnútra SR
Ministerstvo financií SR
Datacentrum
IBM Slovensko, spol. s r. o.
LIBRA Electronics Slovakia, a. s.
Aegon Levensverzekering N.V., pobočka zahraničnej poisťovne
Kappa Štúrovo, a. s.
Siemens, s. r. o.
Siemens Business Services, s. r. o.
Železiarne Podbrezová, a. s.
Slovenský plynárenský priemysel, a. s.
Doprastav, a. s.
Slovenské elektrárne, a. s.
Alcatel Slovakia, a. s.
SHP Harmanec, akciová spoločnosť
MATADOR, a. s.
Heineken Slovensko, a. s.
Západoslovenská vodárenská spoločnosť, a. s.
OMV Slovensko, s. r. o.
Západoslovenská energetika, a. s.
Bratislavská vodárenská spoločnosť, a. s.
COOP Jednota Slovensko, spotrebné družstvo
BILLA, s. r. o.
Letové prevádzkové služby SR, š. p.
Slovenská pošta, š. p.
Slovenská televízia
Slovenská televízna spoločnosť, s. r. o.
Slovenský hydrometeorologický ústav
Slovenský rozhlas
T E R N O, akciová spoločnosť
TESCO STORES SR, a. s.
Železnice SR
Železničná spoločnosť, a. s.
Slovak Parcel Service s. r. o.
AHOLD Retail Slovakia, k. s.
N A Y spol. s r. o.
SHELL Slovakia, a. s.

New opportunities through modern networks

The organisational changes that took place in 2003 optimally linked sales channels with operational activities. The Production and Service Division intensively supported marketing and sales by ensuring the technical prerequisites for all activities and service improvements for our customers.

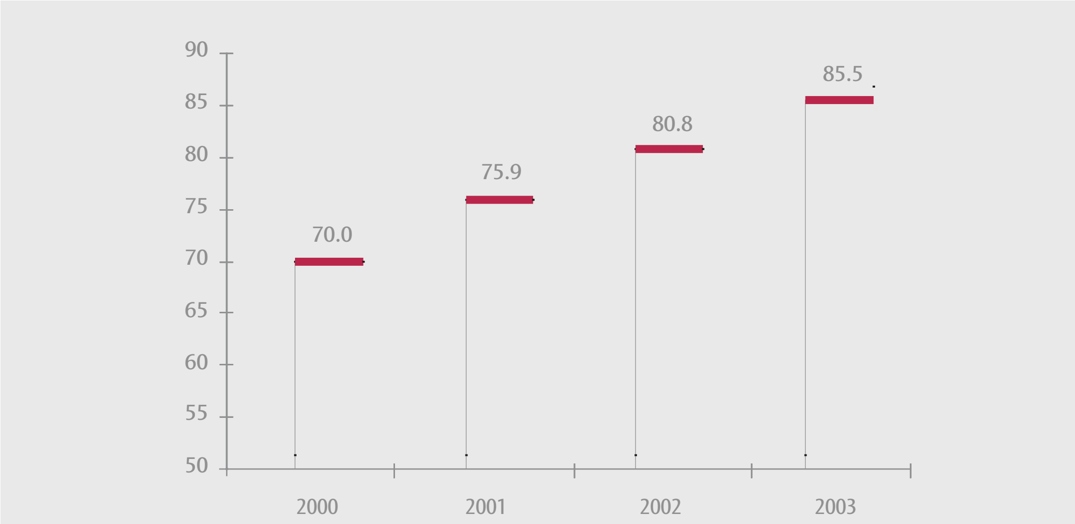
Network modernisation

In 2003 we finalised the preparation of our networks for market liberalisation. We further extended and modernised our telecommunications infrastructure, focusing on its high reliability and security. Customer requirements are constantly growing and we endeavoured to keep pace with this development. We have invested substantial financial resources to secure our operations. With investments to network infrastructure and other functional areas amounting to SKK 5.2 billion, our company maintained its position as one of the largest investors in Slovakia and proved to be the most significant investor in the telecommunications industry in the country.

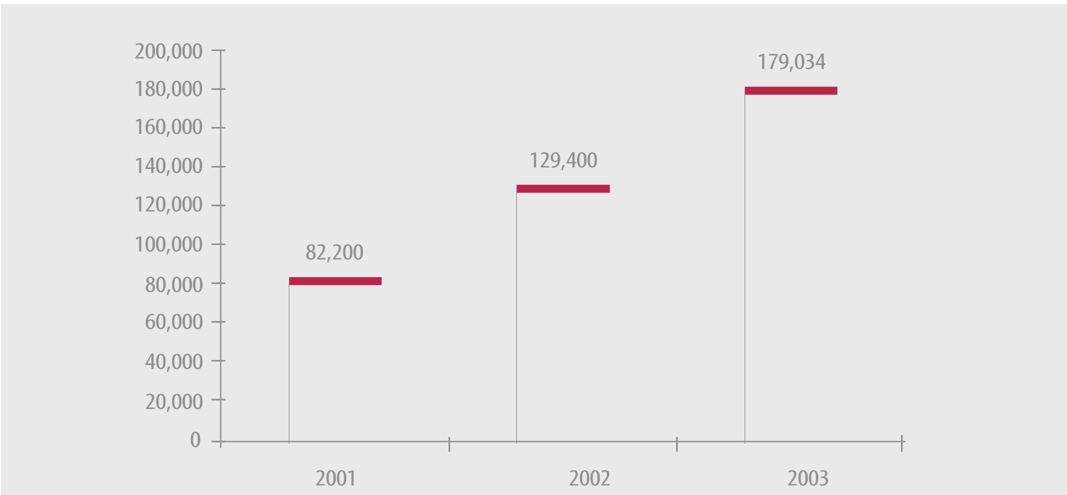
Increased quality of voice networks increases customer satisfaction

We digitalised another 62 analogue service nodes, as a result of which the digitalisation rate increased to nearly 86% at the end of 2003. Full digitalisation of our network will be achieved by the end of 2004. This represents a significant step in modernising our network and bringing new services to our customers.

Development of telecommunications network digitalisation (%)



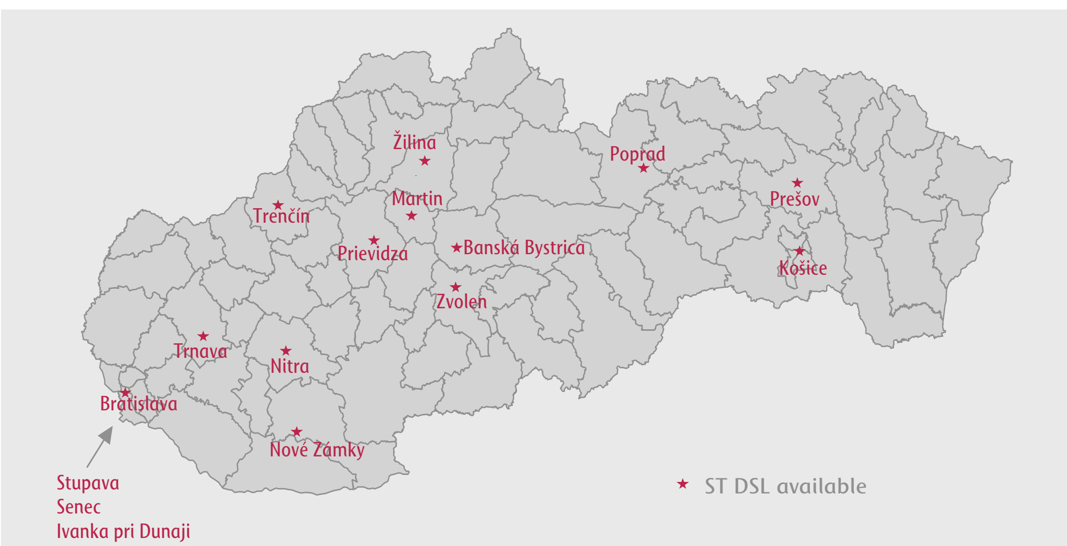
The ongoing digitalisation of switching network nodes helped increase the capacity for providing ISDN services. At the end of 2003, as many as 180,000 ISDN channels were used by our customers.



Number of ISDN channels

Extending the availability of broadband access

The ADSL roll-out was the most significant area of expansion and modernisation of the access network. In June 2003 the technology was made available in Bratislava, Košice and Banská Bystrica, followed by other 13 towns by the end of the year.



Availability of ST DSL service in 2003

In 2003, we continued providing our business customers with special solutions that integrated voice and data services. We created and connected internal data networks mainly for customers from the banking sector and state administration.

We extended the capacities of optical and metallic networks. Compared to the previous year, the metallic network capacity increased by 81,086 kmp (kilometres of pairs). The optical cable network is 551 km longer, with the total length exceeding 8,400 km. Metallic and optical cables replace old overhead or aluminium ones, extend the access in areas not covered before and significantly improve the network quality and service availability.

High level of reliability and security of IP network

In 2003 we modernised and enhanced the quality of the ST IP (Internet Protocol) network. We increased its reliability and security by strengthening the features of the IP MPLS (Internet Protocol Multiprotocol Label Switching) backbone network. The upgrade of messaging servers resulted in improved performance and reliability of e-mail services and greater quality of the ST Box service.

By implementing configuration management of the MPLS VPN (Multiprotocol Label Switching Virtual Private Network) solution in 2003 we created an efficient tool for monitoring and supervising traffic in the network and for further increasing the standard of service and eliminating security risks.

Optimisation of data network platforms

In 2003 we invested in the reinforcement and optimisation of data network platforms to the extent sufficient to meet all market demands. Since Slovakia was sufficiently covered with data network nodes in previous years, the total number of nodes in all three domains of the ST-WAN/VAN (Wide Area Network/Value-added Network) increased by just 16 nodes compared with 2002. The network had a total of 281 nodes at the end of 2003. The strong demand for data services resulted in an increase of almost 63% in the number of ports in the stated network. The WAN/VAN network offered our customers two types of services – Leased Lines and Frame Relay.

In 2003 we also reinforced the ST-ATM (Asynchronous Transfer Mode) network. The number of nodes in this network was stabilised at 25 nodes. The network consists mainly of ATM switches with a switching capacity of 6.4 Gbps. The total number of ports in the ST-ATM network was increased by more than 72% in the course of the year.

In 2003 we implemented various support systems, which significantly streamlined the entire process, from order up to service installation. We successfully shortened the service installation time to an average of 10 working days.

Customer satisfaction is still our top priority

Together with the introduction of Service Level Agreements we implemented new systems for supporting and monitoring their parameters in pilot operation. In the future, these systems will enable our customers to constantly monitor the quality of provided services.

Centralisation of fault reporting into four centres significantly contributed to improving performance in favour of the customer. The fault reporting centres answered 96.6% of incoming calls within 20 seconds. In 2003 our technicians cleared 80% of faults in the data network within 3 hours. A permanent improvement in the process of service provisioning and quality assurance remain our long-term strategic priorities.

The strategic decision of the company's shareholders adopted in November 2003 laid the foundations for the implementation of state-of-the-art technology NGN (Next Generation Network). In the future this technology will enable the creation of a unified, packet-oriented network, which will support the integration of various types of services, inclusive of voice, data, and multimedia services.

We laid the foundations for Next Generation Network services

Using advanced information technologies

The year 2003 was marked by liberalisation of the telecommunications market. We prepared for network interconnection and increased competition. All this had a profound impact on the IT architecture of the company. We implemented a number of challenging projects, mainly in the areas of interconnect billing, service provisioning, and sales. In addition, we had to consolidate and stabilise the functionalities of systems, which were rolled out in record breaking time the year before.

Preparation of systems and processes for liberalisation

In the course of 2003 we took all the steps necessary for the introduction of national and international interconnection products based on our Reference Interconnection Offer, which was submitted to the Telecommunications Office in January 2003. At the end of the year the first interconnection contract was signed and all existing partners, both mobile and international operators, were migrated to the new interconnect billing systems. This helped us better control traffic flows, revenues and margins and so act accordingly.

Service provisioning

In 2003 we started to roll out new automated service provisioning systems throughout Slovakia. The roll out started in March in Trenčín, continued in May in Bratislava, with the majority of the territory of Slovakia being covered by the end of the year. Apart from cost cuts, these new systems allowed greater transparency and automation of service provisioning processes. Close co-operation between the network, customer care, sales, and IT departments improved delivery times and quality. The implementation of the new billing system in our company was awarded the World Billing Award in the telecommunications category at the 7th Billing Systems 2003 world conference in London.

Consolidation and stabilisation

At the beginning of 2003 we successfully solved tasks relating to the billing of telecommunications services. The whole infrastructure and many systems underwent their biggest change of the past decade and it was essential to improve the situation in an increasingly competitive environment. Through the finalisation of our IT operations organisation and brand-new world class data centre infrastructure, it was possible to greatly improve the level and quality of IT operations. All major IT systems were consolidated from all over the country into new data centres and the new process structure was adjusted to meet predefined service levels. All IT activities are now covered by Service Level Agreements (SLAs) concluded with other business units. In the second half of 2003 the quality of our billing management and operations attained the level of the best in its class. Improvements are still ongoing as with competitors hot on our heels, we do not want to be merely among the best, we want to be the best.

Further improvement of services

In 2004, we will further complete our IT architecture with a strong focus on business intelligence and service delivery. New systems will allow us to track and analyze company performance very quickly and adjust all actions accordingly. Service provisioning will be even more automated and in particular the management of service levels for customer solutions will become a standard capability of our company.

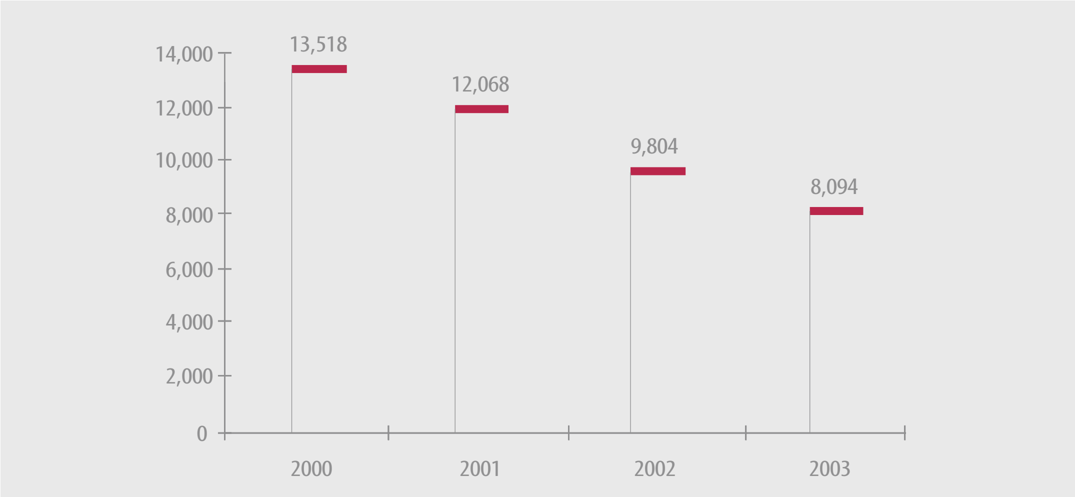
Constant improvement of our skills

Our employees stand behind every success we have achieved in the liberalised environment. Many of them are in daily contact with our customers. We lay emphasis on their training and professionalism because they are the embodiment of the new brand of Slovak Telecom and its values.

Restructuring

The process of company restructuring continued also through 2003. The full time equivalent (FTE) in 2003 came to 8,094 employees. We streamlined the activities of our core business and cut staff numbers. Employees leaving the company were provided with active assistance in the search for new jobs – for example re-qualification, consultations, or compensations. We prepared a total of 1,763 re-qualification courses for employees released due to organisational reasons, thus helping them increase their chances on the labour market. All the said activities contributed to the fact that the number of our former employees registered with labour offices was less than 150 at the end of the year.

Full time equivalent

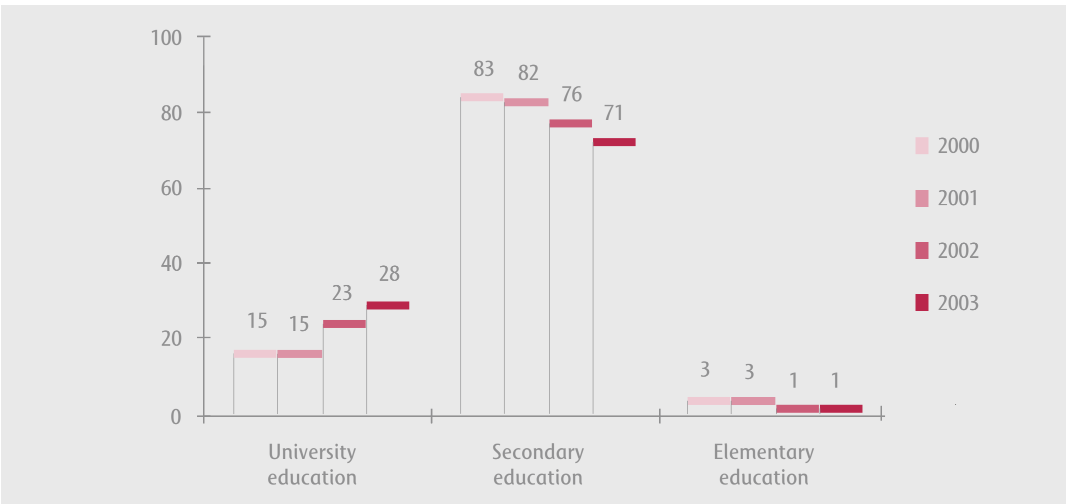


Supporting development

We endeavoured to support the fulfilment of the new corporate vision by professional management and development of human resources. The employee structure in terms of age and education changed throughout 2003. One third of our employees were university graduates and the average age was less than 40. Women accounted for 40% of our workforce with a 16% representation in senior managerial positions.

We prepared tailor-made development programmes for our managers and trained some 800 managers in the Successful Change Manager programme. We also prepared employees with strong managerial potential for positions in senior and junior management. For these managers we organised development centres, workshops, training programmes and provided them with 360 degree feedback.

Education structure (%)



Expertise is the basis of our professionalism

We devoted great attention and investments to the development and enhancement of the know-how and skills of our experts and managers. In 2003 we invested more than SKK 48 million in employee development and organised 2,751 training courses. On average each employee drew 6.3 training days. We improved the quality of English language courses focusing on technical English. We also provided training devoted to development of presentation and communication skills, project management, as well as familiarisation with new company products.

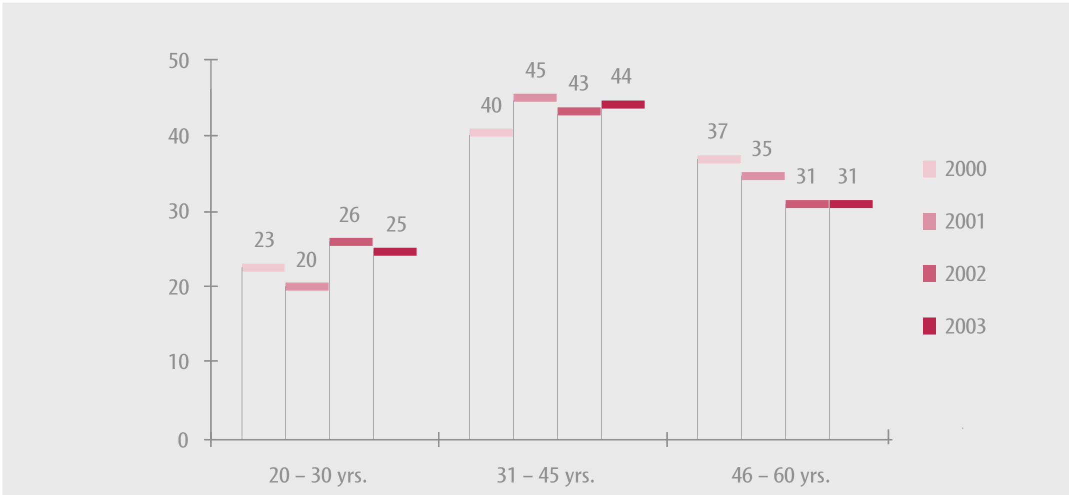
Corporate identity and culture

Changes introduced in the course of 2003 influenced the way employees identified themselves with the new corporate culture. Implementation of corporate values, customer orientation and improved managerial skills, had an impact on every position. All employees in direct or telephone contact with customers were retrained by our internal lecturers. They trained as many as 1,600 employees. In our work we followed the Employee Code of Ethics and Standards of Behaviour both towards internal and external customers.

Selecting the best

In selection process we paid special attention to managers and employees dealing directly with customers. We offered equal opportunities both to internal and external candidates. In 2003, 60% of new positions were staffed with internal candidates.

Age structure
(%)



We seek potential employees also by means of public presentations, for example at National Career Days, and programmes aimed at co-operation with schools. In 2003 we provided consultations and diploma paper internships to twenty future university graduates.

Appraisal of our work

In July 2002 we introduced a new uniform remuneration system with the aim of rewarding employees for their performance. In relation to the new system we run an intensive internal information campaign explaining the principles and elements of the new system. We launched the operation of Intranet applications serving for employee evaluation and remuneration. In this way we achieved accurate and faster processing of data and less paper work. Base salaries increased by 10.3% on average, a fact that made us an attractive and competitive company also on the labour market when compared to other Slovak and foreign companies operating in Slovakia.

Using our internal sources we prepared and implemented a new flexible system of benefits, which employees could choose from according to their needs via portal application.

Launch of telework

In 2003 we defined the rules of employment relations for working in the telework regime (the practise of working also outside the employer's premises). The first employees working in the telework regime were our colleagues from service installation and operation areas.

We want to be even better

The 2003 award of the Human Resources Management and Development Association for development programmes and for results achieved in the field is a proof that we are on the right track. In line with our new corporate vision and under the new corporate brand, we want to improve and streamline the structure of our employees, and create an interesting and stimulating work environment for them so that the results of our work can come up to the European level. All of the above mentioned will help us better satisfy our customers' needs.

Aware of our role in the society

It is a duty of the big and powerful to render help to those who need it. That is also one of the reasons why we have helped improve the quality of life of children, the handicapped and the socially disadvantaged. We have supported events of European significance, unique achievements in sports and have remained attentive to the environment.

We help

In 2003 we focused mainly on projects providing comprehensive help to those in need. On the basis of this strategy we supported such projects as Linky života (Life Lines), the building of Maják (Lighthouse) Asylum, and Konto bariéry (Barriers Account). We also contributed to the realisation of www.rozhodni.sk and Living in Bratislava campaigns, and Special Olympic Games Movement, hospic Plamienok (Little Flame Hospice), or Pupils' Tournament Against Smoking. Our physically handicapped fellow-citizens, former political detainees, anti-fascist fighters and those who were dragged off to USSR during the communist dictatorship are offered an advantageous calling plan on a long-term basis. Taking part in projects such as An Hour for Children, A Smile as a Gift, Children Sports Day or Children Christmas Workshop, has already become a tradition. We were also present at the birth of a new competition "Business Idea of the Year", which created space for the self-performance of creative secondary school students from all over Slovakia.

We contribute to the development of knowledge economics

As part of the eSlovakia project we continued to connect Slovak elementary and secondary schools to the Internet under very beneficial conditions. Together with the Infovek Project Association we assisted in training teachers and focused on the utilisation of information and communication technologies in the education process. Those who have already left the school desks, and who have not worked with the Internet yet, were given the opportunity of acquiring primary skills in www.každom.veku Internet courses. InfoKiosks, the information and communication facilities, were put into pilot operation in five Slovak towns. By means of these InfoKiosks citizens had the chance of using various forms of communication, such as making phone calls, sending faxes, SMS messages, sending and receiving electronic mail and surfing the Internet.

Besides this multitude of activities in 2003 we also kept in mind our role in arousing expert discussions in the field of telecommunications and information technologies. We supported numerous specialised conferences partly by the active participation of our experts, and partly by providing funding and technology. Among the most significant events of this kind were the ITAPA 2003 conference aimed at informatisation of public administration and the iCom conference dedicated to the Act on Electronic Communications.

We support the extraordinary

"To support the best of the best" is the motto we apply not only to our professional life but also to our sponsoring activities in culture. We supported the extraordinary on theatre stages – the opening night of Hamlet at the new Aréna theatre, Zvolenské hry zámocké (Zvolen Castle Plays), Festival Českého divadla (Czech Theatre Festival), in cinemas – Artfilm festival in Trenčianske Teplice, the first Slovak runs of the cult movies Matrix Reloaded and Matrix Revolutions, as well as on opera stages – the concert of world famous tenor, José Carreras.

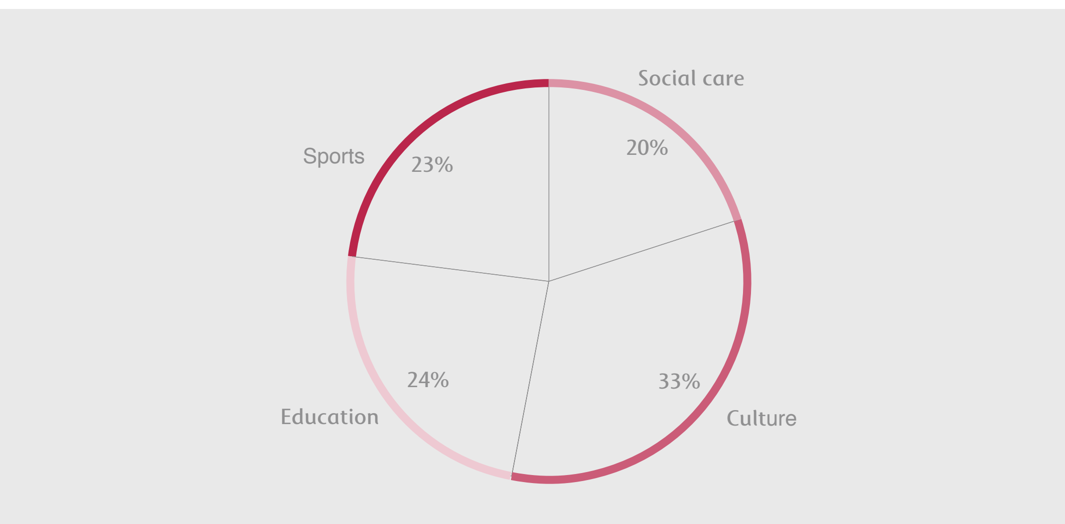
We join hands with the best

Since 2002 we have been the general sponsor of the top Slovak ice-hockey competition, which gave birth to one of the world's best ice-hockey teams. Since the 2002/2003 season the competition is known as ST Extraliga. We also keep in mind support of the children sporting spirit, as a result of which we decided to initiate the STreet hockey school league, giving elementary school pupils the opportunity of measuring their abilities in hockey ball.

Help will always be needed

We are a successful company and we will proceed with the majority of the above mentioned projects as a responsible corporate citizen that wants to help the community also under its new brand. We are not isolated from the problems and are aware of the conditions in various spheres of life in our society. We will keep our long-term and continuous approach of supporting nationwide projects to improve communication between people and will help our citizens understand the meaning of a new, unified Europe.

Main sponsoring activities



Our relation to the environment

In 2003 we signed the new ETNO (European Telecommunications Network Operators' Association) Sustainability Charter, which in addition to environmental aspects takes into consideration also the social dimension of corporate responsibility. Our company thus joined the most developed telecommunications companies in Europe, which see their responsibility as a corporate citizen in the context of sustainable development. In the course of 2003 we focused mainly on reducing the level of emissions released into the air, preventive protection of underground and surface waters against pollution, the reduction of pollution of released waste waters, minimisation of waste generation as a result of company's operations and the fostering of waste recycling. Our effort led to more intense recycling of electronic scrap, the volume of which increased as a result of culmination of replacement of old technology and network digitalisation. At the same time we met all legal obligations resulting from our accession to the European Union in 2004. At the request of the state administration we elaborated an overview of possible risks of industrial disasters and laid the foundation of modern waste management.

Finance

Being a part of Slovakia's economy

The year 2003 was connected with implementation of new products and services supporting revenue optimisation in the environment of growing competition on the Slovak telecommunications market. We prepared for interconnection at both national and international levels and for related billing processes. Our financial results confirmed the overall stability of the company.

Revenues

Revenues generated in 2003 reflect the increasing pressure of competition as well as increased demand for data and Internet services. In line with market development, revenues fell by 5.6% from SKK 18,840 million in 2002 to SKK 17,776 million in 2003 (SKK 20,110 mil. in 2001). With regard to data services however, and more particularly Internet services, revenues continued to grow.

Operating expenses

The development of operating expenses demonstrated the prevailing strict control of company finances in recent years. Operating expenses increased by SKK 111 million (0.7%) from SKK 15,038 million in 2002 to SKK 15,149 million in 2003 (SKK 16,036 mil. in 2001). This was mainly due to an increase in the depreciation charge and amortisation by SKK 273 million (5%) to SKK 5,781 million compared with SKK 5,508 million in 2002 (SKK 5,457 mil. in 2001).

Further headcount optimisation led to a decrease in personnel expenses by 5.4% to SKK 3,201 million in 2003 (SKK 3,385 mil. and SKK 4,000 mil. in 2002 and 2001 respectively). The cut in personnel expenses was attained through staff cuts during 2003. Under-proportional cost reduction is mainly caused by an orientation to university graduates and specialists in telecommunications.

As a result of decreased traffic from our network to third parties' networks, our expenses for these services decreased by 10.6% from SKK 3,167 million in 2002 to SKK 2,831 million in 2003 (SKK 3,644 mil. in 2001).

EBITDA, EVA and net income

We managed to optimise EBITDA (Earnings before Interest, Tax, Depreciation and Amortisation) at the level of SKK 8,408 million in 2003 (SKK 9,379 mil. and SKK 9,532 mil. in 2002 and 2001 respectively) in line with IFRS (International Financial Reporting Standards). The EBITDA margin came to 47.3% compared with 49.8% in 2002 (47.4% in 2001), which is above average for the industry. The EVA (Economic Value Added) indicator remained on the same negative level as in 2002, comprising SKK 716 million (SKK 533 mil. in 2001). Net income increased by SKK 281 million from SKK 3,468 million in 2002 to SKK 3,749 million in 2003 (SKK 3,922 mil. in 2001) mainly due to a drop in the income tax rate and increased contribution of EuroTel Bratislava, a. s.

Capital expenditures

In 2003 capital expenditures amounted to SKK 5,177 million in 2003, which is SKK 612 million down over SKK 5,789 million seen in 2002 (SKK 6,070 mil. in 2001). The maintained high level of capital expenditures lays basis for the strong belief of the company's management and shareholders in future prosperity. Major part of capital expenditures worth SKK 3.2 billion was used for modernisation and digitalisation of the telecommunications network, including expenditures related to NGN (Next Generation Network) technology. Capital expenditures on information technologies reached SKK 1.4 billion. The remaining part of capital expenditures was used for re-branding, vehicle fleet renewal, and other projects.

Employees

In 2003 the FTE (Full Time Equivalent) equalled 8,094 employees, which is by 1,710 employees less (17.4%) than the FTE of 9,804 employees in 2002 (12,068 employees in 2001). Headcount optimisation had a positive impact on the line per employee indicator, which increased from 181 to 210 lines per employee (168 lines per employee in 2001).

The future

We believe that the strategic decisions of the company will produce positive financial results also under the new brand of Slovak Telecom. Our capital investments and financial plans for 2004 will focus on further improvement of the quality of service and product provisioning with special emphasis on data and IP (Internet Protocol) services, as well as full network digitalisation. We also want to support projects aimed at helping our fellow-citizens, and projects focusing on the informatisation and internetisation of Slovakia.

Slovak Telecom, a. s.

Consolidated financial statements for the year ended 31 December 2003

Prepared in accordance with International Financial Reporting Standards

Contents

General information

These consolidated financial statements have been prepared by Slovak Telecom, a.s., formerly Slovenské telekomunikácie, a.s., („the Company“) for Slovak Telecom, a.s., its subsidiaries RK Tower, s.r.o. and RK Transmission, s.r.o. and its joint venture EuroTel Bratislava, a.s., together „the Group". Slovak Telecom's operations began operating under the "Slovak Telecom" brand in January 2004.

The Company was incorporated as a joint stock company in the Slovak Republic on 1 April 1999. On 4 August 2000 Deutsche Telekom AG obtained control of the Company by acquisition of 51% of shares of Slovak Telecom, a.s. The transaction involved a purchase of existing shares from the Slovak Government as well as issuance of new shares. The Slovak Government retained 49% of shares in the Company.

The Directors are responsible for establishing the direction and policies of the Group and are accountable to the owners of the Group.

The Group had a monopoly position for the provision of basic voice telephony services in the Slovak Republic until 1 January 2003. It supplies fixed-line telecommunication services in the Slovak Republic and owns and operates the majority of the telecommunications facilities therein. The Group provides local, national and international telephony services and a wide range of other telecommunications services including leased circuits, data networks and internet access. It also provides residential and business customers with products ranging from standard telephones to computer communication networks. Through its joint venture, EuroTel Bratislava, a.s., it operates an analogue technology NMT 450 mobile telephony network and a GSM standard technology 900 MHz and 1 800 MHz frequency mobile telephony network. The Group has a peripheral business as the owner and operator of radio and television transmission equipment.

Staff numbers

	2003	2002
Average staff numbers employed during the year	8,094	9,804

Reporting currency

The consolidated financial statements are presented in millions of Slovak crowns („SKK million").

Registered address

The registered address is: Námestie slobody 6
817 62 Bratislava
Slovak Republic

Consolidated Income Statement for the year ended 31 December

All amounts are in millions of Slovak crowns

	Notes	2003	2002
Revenue	1	17 776	18 840
Operating costs	2	(15,149)	(15,038)
Profit on sale of discontinued operations		-	15
Profit from operations		2,627	3,817
Share of results of joint venture	6	719	408
Profit on sale of subsidiary		-	54
Financial income – net	3	287	207
Profit before tax		3,633	4,486
Taxation	4	116	(1,018)
Net profit		3,749	3,468

The consolidated financial statements on pages 46 to 76 were authorised for issue on behalf of the Board of Directors on 27 February 2004 by:



Ing. Štefan Bugár
Deputy Chairman of the Board of Directors

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

Dr. Mark von Lillienskiold
Chief Financial Officer and Member of the Board of Directors

The notes on pages 50 to 76 form an integral part of these consolidated financial statements.

Consolidated Balance Sheet at 31 December

All amounts are in millions of Slovak crowns

	Notes	2003	2002
ASSETS			
Non-current assets			
Property, plant and equipment	5	40,784	41,905
Intangible assets	5	1,263	957
Investments in joint venture	6	2,612	2,044
Total non-current assets		44,659	44,906
Current assets			
Inventories	7	262	409
Assets held for sale	8	465	419
Investments	9	44	282
Receivables and prepayments	10	2,948	3,335
Income tax prepayment		40	157
Cash and cash equivalents	11	15,685	12,711
Total current assets		19,444	17,313
Total assets		64,103	62,219
EQUITY AND LIABILITIES			
Share capital and reserves			
Share capital	12	26,028	26,028
Share premium	12	11,632	11,632
Statutory reserve fund	12	839	517
Retained earnings	12	10,040	8,669
Total share capital and reserves		48,539	46,846
Non-current liabilities			
Borrowings	13	4,392	5,322
Deferred tax	14	3,306	4,339
Other payables	15	522	352
Provisions	16	15	50
Total non-current liabilities		8,235	10,063
Current liabilities			
Trade and other payables	15	6,368	4,243
Borrowings	13	740	793
Provisions	16	221	274
Total current liabilities		7,329	5,310
Total liabilities		15,564	15,373
Total equity and liabilities		64,103	62,219

The notes on pages 50 to 76 form an integral part of these consolidated financial statements.

Consolidated Statement of changes in shareholders' equity

All amounts are in millions of Slovak crowns

	Notes	Share capital	Share premium	Statutory reserve fund	Retained earnings	Total Equity
Year ended 31 December 2002						
At 1 January 2002		26,028	11,632	330	7,096	45 086
Dividends		-	-	-	(1,708)	(1,708)
Allocation to funds		-	-	187	(187)	-
Net profit for the year		-	-	-	3,468	3,468
At 31 December 2002		26,028	11,632	517	8,669	46,846
Year ended 31 December 2003						
At 1 January 2003		26,028	11,632	517	8,669	46,846
Dividends	12	-	-	-	(2,056)	(2,056)
Allocation to funds		-	-	322	(322)	-
Net profit for the year		-	-	-	3,749	3,749
At 31 December 2003		26,028	11,632	839	10,040	48,539

The notes on pages 50 to 76 form an integral part of these consolidated financial statements.

Consolidated Cashflow Statement at 31 December

All amounts are in millions of Slovak crowns

	Note	2003	2002
Net cash flows from operating activities	17	8,670	5,250
Cash flows from investing activities			
Proceeds from the disposal of subsidiary		-	59
Purchase of property, plant and equipment		(5,610)	(3,915)
Proceeds from sale of property, plant and equipment		133	124
Proceeds from non-current investment settlement		282	398
Investment income		81	83
Disposal of activity, net of cash disposed		-	139
Interest received		574	644
Net cash used in investing activities		(4,540)	(2,468)
Cash flows from financing activities			
Repayment of loans		(664)	(241)
Payment of finance lease liabilities		(24)	(40)
Interest paid		(468)	(594)
Dividends paid to group shareholders		-	(1,708)
Net cash from financing activities		(1,156)	(2,583)
Net increase in cash and cash equivalents		2 974	199
Cash and cash equivalents at 1 January		12,711	12,512
Cash and cash equivalents at 31 December		15,685	12,711

The notes on pages 50 to 76 form an integral part of these consolidated financial statements.

Accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

(a) Basis of preparation

These consolidated financial statements have been prepared in accordance with and comply with International Financial Reporting Standards ("IFRS") for Slovak Telecom, a.s. ("the Company") and its subsidiary undertakings and joint venture, (together "the Group"). The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of derivative financial instruments and financial assets held for sale.

(b) Accounting for subsidiaries and joint ventures

Investments in jointly controlled entities are accounted for by the equity method of accounting. Jointly controlled entities are those in which the Group shares control of the operations with its joint venture partners.

Equity accounting involves recognising in the income statement the Group's share of the joint venture's profit or loss for the year. The Group's interest in such entity is carried in the balance sheet at an amount that reflects its share of the net assets and includes goodwill on acquisition. Unrealised gains on transactions between the Group and its jointly controlled entity are eliminated to the extent of the Group's interest in such entity; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Investments in subsidiaries are accounted for by full consolidation. Subsidiaries are those in which the Group is controlling the subsidiary in a way, that it has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

Full consolidation involves the presentation of the consolidated financial statements in a way as of a single enterprise. All transactions, balances and unrealised surpluses and deficits on transactions within the Group have been eliminated in the consolidation. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies of the Group.

(c) Property, plant and equipment

(i) Cost

All fixed assets, other than land, are carried at cost less accumulated depreciation. Land, which was acquired before 1991, is stated at values attributed to it by the legislation. All land purchased thereafter is carried at acquisition cost.

Cost includes all costs directly attributable to bringing the asset to working condition for its intended use. In the case of the network this comprises all expenditure up to the distribution points within customers' premises, and includes contractors' fees, materials, direct labour and borrowing costs on loans used to finance capital projects during the course of construction.

Enhancement costs are capitalised when it is probable that future economic benefits, in excess of the original assessed standard of performance of the existing asset, will flow to the enterprise. Maintenance, repairs and minor renewals are charged to income as incurred.

Borrowing costs that are attributable to the purchase or construction of a property, plant and equipment are capitalised, during the period of time that is required to complete the asset for its intended use. All other borrowing costs are expensed as incurred.

Items that are retired or otherwise disposed of are eliminated from the balance sheet, along with the corresponding accumulated depreciation. Any gain or loss resulting from such retirement or disposal is included in other operating costs.

(ii) Depreciation

Depreciation is calculated on property, plant and equipment on a straight-line basis from the time they are available for use, so as to write down their cost or valuation to their estimated residual values over their remaining useful lives. The useful economic lives assigned to the various categories of property, plant and equipment are:

Freehold buildings	25 to 50 years
Duct, cable and other outside plant	30 years
Exchange equipment and related equipment	4 to 13 years
Radio and television equipment	8 to 30 years
Other fixed assets	6 to 25 years

No depreciation is provided on freehold land. Analogue switching equipment is depreciated in proportion to the decrease in capacities in use.

Management is continuing to assess network development plans. The effect of any future revisions to expected useful economic lives as a result of this exercise will be reflected in the depreciation charge for future periods.

Property and equipment are reviewed for impairment loss, whenever events or circumstances indicate, that the carrying amount may not be recoverable. Where the carrying amount of an asset is greater than its recoverable amount, it is written down immediately to its estimated recoverable amount. Property, plant and equipment that is retired from active use and held for disposal is reclassed from noncurrent assets to current assets.

Prior to 1 January 1994, the Group's fixed asset registers were maintained in accordance with Slovak tax legislation and therefore in order to calculate the accumulated depreciation, estimates have been made using the above useful economic lives. The estimated difference at 31 December 2003 reduced the accumulated depreciation balance by SKK 0.9 billion (2002: SKK 1.0 billion) from the values shown in the fixed asset records.

(d) Intangible assets

Purchased software is carried at cost less accumulated depreciation. Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recognised as a capital improvement and added to the original cost of the software. Software is amortised using the straight-line method over its useful life, not exceeding a period of 5 years.

(e) Leased assets

Leases of property, plant and equipment where the Group has substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in debt. The interest element of the finance charge is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leasing contracts is depreciated over the useful life of the asset.

Leases of assets under which all the risks and benefits of ownership are effectively 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 required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(f) Investments

The Group classifies its investments into the following categories: held-to-maturity, available-for-sale and trading investments. The classification is dependent on the purpose for which the investments were acquired. Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale, these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Investments that are acquired principally for the purpose of generating a profit from short term fluctuations in price are classified as trading investments. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

All purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Available-for-sale investments and trading investments are subsequently carried at fair value, whilst held-to-maturity investments are carried at amortised cost using the effective yield method. Realised gains and losses arising from changes in the fair value of available-for-sale investments are included in the income statement in the period in which they arise.

During the period the Group did not hold any investments classified as trading investments.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on weighted average cost basis. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses. Provision is made against slow-moving and obsolete inventories.

(h) Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. Such provision for impairment of trade receivables is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers. Bad debts are written off in the year in which they are identified.

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

(i) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cashflow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks, net of bank overdrafts. In the balance sheet, bank overdrafts are included in borrowings in current liabilities.

(j) Borrowings

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method, any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

(k) 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 of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Costs related to the ongoing activities of the Group are not provided in advance.

Restructuring

Restructuring provisions comprise employee termination payments, and are recognised in the period in which the Group becomes legally or constructively committed to payment. Employee termination benefits are recognised only after either an agreement with the appropriate employee representative is in place specifying the terms of redundancy and the numbers of employees affected or after individual employees have been advised of the specific terms.

Onerous contracts
The Group recognises a provision for onerous contracts when the expected benefits to be derived from the contract are less than the unavoidable costs of meeting the obligation under the contract. The provision is reversed when the future benefits exceed the cost of meeting the obligation under the contract.

(l) Revenue recognition

Revenues are recognised upon delivery of products and customer acceptance and on the performance of the services.

Installation fees and directly related costs are deferred over the estimated customer relationship period to achieve a better allocation of these revenues and costs to the period they relate to. Carrier Service revenues are derived from calls and other traffic that originate in the mobile networks or outside Slovakia but use the Group's network. The Group pays a proportion of the call revenue collected from its customers to mobile operators and other telecommunication companies for calls and other traffic that originate in the Group's network but use mobile operators' or international network.

Revenues and costs are shown gross in these consolidated financial statements.

(m) Dividends

Dividends on ordinary shares are recognised in equity in the period in which they are declared.

(n) Foreign currency translation

Transactions denominated in foreign currencies are translated into Slovak crowns at the date of the transaction. Outstanding monetary items at the balance sheet date are reported at the closing rate. Non-monetary items are reported using the exchange rate at the date of the transaction.

Realised and unrealised exchange differences are recognised as income or expenses for the accounting period in which they arise. Where such gains and losses are incurred as part of the operating activities they are included within operating costs. Where they arise on foreign currency financing activities they are included within net interest and other charges.

(o) Deferred income taxes Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities in the balance sheet and their carrying values in the consolidated financial statements. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred income tax. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The Group offsets deferred tax assets and deferred tax liabilities as the Group has a legally enforceable right to set off current tax assets against current tax liabilities and where the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

(p) Social security and pension schemes The Group makes contributions to the Government's health, retirement benefit and unemployment schemes at the statutory rates in force during the year, based on gross salary payments. Throughout the year, the Group made contributions amounting to 38% (2002: 38%) of gross salaries up to a monthly salary of between SKK 24,000 to SKK 32,000 to such schemes. The cost of these payments is charged to the income statement in the same period as the related salary cost.

The Group has no obligation to contribute to these schemes beyond these statutory rates. The Group does not participate in any other schemes.

(q) Employee benefits In accordance with an annually renegotiated collective labour agreement, the Group is required to pay on retirement an amount of SKK 1,500 for each year of employment with Slovak Telecom starting with a minimum of 10 years employment on the top of the one month salary required by law. These benefits are restricted to those employees who retire during the period for which the labour agreement is in place. The Group is not under a legal or constructive obligation to continue providing such benefits beyond the period of such agreement and therefore no provisions beyond the period of agreement are recognised.

(r) Comparatives Certain comparatives have been reclassified to conform with current year presentation.

Financial risk management

(1) Financial risk factors

The Group's activities expose it to a variety of financial risks, including the effects of: changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain exposures.

Risk management is carried out by a treasury department under various policies approved by Board of Directors of the Company. The treasury department identifies, evaluates and hedges financial risks in co-operation with the operating units. There are policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and investing excess liquidity.

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to EUR and USD. The main foreign currency exposures arise from foreign currency borrowings and contract commitments. The Group hedges the foreign currency exposure of its contract commitments to purchase certain production parts mainly from Germany and Austria. The Group uses foreign currency deposits, investments, forward contracts and foreign currency swaps to hedge its exposure to foreign currency risk in the local reporting currency.

(ii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group policy is to maintain approximately 70% of its borrowings in fixed rate instruments. At the year end 2003 78% (2002 88%) was at fixed rates. The Group uses interest rate swaps to optimise the portion of fixed to floating interest rate ratio based on current market conditions with the aim to reach a 70% ratio. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly semiannually), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

(iii) Credit risk

The credit risk policy defines products, maturities of products and limits for financial counter-party. The Group keeps limit of credit exposure to any financial institution. These limits are reviewed on regular basis.

(2) Accounting for derivative financial instruments and hedging activities

Derivative financial instruments are recognised in the balance sheet at cost and subsequently are remeasured at their fair value.

The method of recognising the resulting gain or loss is dependent on the nature of the item being hedged. On the date a derivative contract is entered into, the Group designates certain derivatives as either:

(i) a hedge of the fair value of a recognised asset or liability (fair value hedge) or
(ii) a hedge of a forecast transaction or of a firm commitment (cash flow hedge).

The Group does not have any fair value hedges or cash flow hedges at 31 December 2003, which qualify for hedge accounting under the rules of IAS 39.

Certain derivative transactions, which provide effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting under the rules in IAS 39. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IAS 39 are recognised immediately in the income statement. The fair value is periodically reviewed and any change in fair value is transferred to the income statement.

The fair values of various derivative instruments used are disclosed in Note 19.

(3) Fair value estimation

The fair value of publicly traded derivatives is based on quoted market prices at the balance sheet date. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

In assessing the fair value of non-traded derivatives and other financial instruments, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for the specific or similar instruments are used for long-term debt. Other techniques, such as option pricing models and estimated discounted value of future cash flows, are used to determine fair value for the remaining financial instruments.

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

Notes to the consolidated financial statements

All amounts are in millions of Slovak crowns

1 Revenue

Reporting by product cluster	2003	2002
Traffic charges	7,901	9,108
Access fees	4,225	3,729
Voice total	12,126	12,837
Value added services	430	555
Data services	1,647	1,637
Terminal equipment	271	276
Fixed network total	14,474	15,305
Carrier Services	2,003	2,321
Online	215	132
Broadcasting	818	810
Other	266	272
	17,776	18,840

Other revenue includes revenue from rental activities and other telecom related services.

Revenues for the year ended 31 December 2003 include SKK 761 million of revenues from the joint-venture company (2002: SKK 862 million). Revenue from carrier services in 2003 includes SKK 456 million from other related parties (2002: SKK 325 million).

2 Operating costs

	2003	2002
Staff costs	3,201	3,385
Material and equipment	824	1,008
Depreciation (Note 5)	5,781	5,508
Network operators	2,831	3,167
Energy costs	404	348
Repairs and maintenance	443	421
Legal and consulting fees	105	277
Value added services	101	122
Foreign exchange differences (net)	20	(23)
Restructuring costs (Note 16)	127	317
Provision for onerous contract (Note 16)	63	(203)
Provision for bad and doubtful debts and write offs	218	(193)
Marketing	343	328
Postal expenses	203	199
Other costs	1,200	1,309
	15,864	15,970
Own work capitalised	(715)	(932)
	15,149	15,038

Operating expenses services include SKK 1,014 million (2002: SKK 948 million) of costs incurred to the joint-venture and costs to international network operators of SKK 479 million incurred to other related parties (2002: SKK 596 million).

Staff costs include SKK 423 million (2002: SKK 444 million) of contributions to social security scheme and SKK 4 million (2002: SKK 3 million) of remuneration of directors.

Own work capitalised comprises direct material and equipment costs, labour and overheads that are attributable to the construction of fixed assets.

3 Financial income – net

	2003	2002
Interest expense		
International Financial Institutions loans	(281)	(307)
Interest expense arising on interest rate swaps	(87)	(120)
Finance leases	(2)	(7)
Commitment fees and other financial expense	(41)	(95)
Net foreign exchange gains (losses)	270	382
Borrowing expense total	(141)	(147)
Change in Fair-value and settlement impact of swaps (Note 19)	(109)	(183)
Interest income on short term deposits	570	644
Interest income from debt securities held (Note 9)	61	73
Net foreign exchange gains (losses)	(115)	(180)
Income from securities sold	24	-
Other	(3)	-
Net financial income (expense)	287	207

4 Taxation

	2003	2002
Current tax charge	766	983
Deferred tax income (Note 14)	(1 033)	(74)
Share of income tax of joint venture (Note 6)	163	4
Share of deferred tax of joint venture (Note 6)	(12)	105
	(116)	1 018

4 Taxation (continued)

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

	2003	2002
Net profit before tax	3,632	4,486
Income tax calculated at 25% (2002: 25%)	908	1,121
Change in tax rate – deferred tax effect (Note 14)	(1,044)	-
Change in tax rate – deferred tax effect joint venture	(36)	-
Effect of income not taxable	(74)	(160)
Effect of expenses not deductible for tax purposes	96	109
Under (Over) -provision in respect of previous years	34	(52)
	(116)	1 018

On 4 December 2003 a new Slovak Corporation tax rate of 19% (previously 25%) was enacted effective from 1 January 2004.

5 Property, plant and equipment and intangible assets

	Intangibles	Land and Buildings	Duct, cable and other outside plants	Telephone excharges and related equipment	Radio and transmis-sion equipment	Other fixed assets	Capital work in progress including advances (CIP)	Total
At 1 January 2003								
Cost	2,231	6,891	25,306	35,072	4,588	4,048	1,324	79,460
Accumulated depreciation	(1,274)	(1,599)	(8,479)		(3,308)	(2,326)	(40)	
Net book value	957	5,292	16,827	15,500	1,280	1,722	1,284	42,862
Opening net book amount	957	5,292	16,827	15,500	1,280	1,722	1,284	42,862
Additions	798	268	837	2,085	44	623	522	5,177
Disposals	(15)	-	(14)	-	-	(48)	-	(77)
Transfers to assets held for sale (Note 8)	-	(134)	-	-	-	-	-	(134)
Depreciation charge (Note 2)	(477)	(107)	(782)	(3,853)	(322)	(240)	-	(5,781)
Closing net book value	1,263	5,319	16,868	13,732	1,002	2,057	1,806	42,047
At 31 Decemb. 2003								
Cost	3,004	6,453	25,020	35,583	4,392	4,406	1,821	80,679
Accumulated depreciation	(1,741)	(1,134)	(8,152)	(21,851)	(3,390)	(2,349)	(15)	(38,632)
Net book value	1,263	5,319	16,868	13,732	1,002	2,057	1,806	42,047

Assets subject to finance lease with a net book value of SKK 31 million (2002: SKK 73 million) are included in "other fixed assets".

No land or buildings were pledged as collateral as of 31 December 2003 and 2002.

6 Investments in subsidiaries and joint ventures

Details of the Group's subsidiaries and joint venture are given below.

	Country of incorporation	Interest in capital %	Activities	Method of consolidation
Subsidiaries				
RK Tower, s.r.o.	Slovak Republic	100% (2002: 100%)	Broadcasting	Full
RK Transmission, s.r.o.	Slovak Republic	100% (2002: 100%)	Broadcasting	Full
Joint venture				
EuroTel Bratislava, a.s.	Slovak Republic	53% (2002: 53%)	Wireless telephony services	Equity accounting

During 2002, certain assets were transferred to RK Tower, s.r.o. and the assets related to radiocommunication activities are rented within the Group.

Control of EuroTel is shared between the Group and Atlantic West B.V. and hence this investment is considered a joint venture. Neither party has unilateral control over major decisions affecting the joint venture. Pursuant to EuroTel's Shareholders Agreement, the Group has a 51% economic interest in the profits and net assets of the joint venture as shown below.

6 Investments in subsidiaries and joint ventures (continued)

	Joint venture
At 1 January 2003	
Cost	1,641
Share of profit	403
Opening net book value	2,044
Share of profit before tax	719
Share of income tax (Note 4)	(151)
Closing net book value	2,612
At 31 December 2003	
Cost	1,641
Share of profit (loss) net	971
Closing net book value	2,612

The following amounts represent the Group's share of the assets and liabilities and revenue and expenses of the joint venture.

	2003	2002
Non-current assets	5,195	4,607
Current assets	2,513	2,141
	7,708	6,748
Non-current liabilities	(218)	(3,478)
Current liabilities	(4,798)	(1,146)
	(5,016)	(4,624)
Net assets	2,692	2,124
Sales	5,708	4,663
Profit before tax	719	408
Income taxes	(151)	(109)
Profit after tax	568	299
Proportionate interest in joint venture commitments	292	122

EuroTel's number of employees at 31 December 2003 was 1,270 (2002: 1,156).

7 Inventories

	2003	2002
Cable	60	74
Engineering	182	285
Other	20	50
	262	409

The inventory items are shown after slow-moving provision of SKK 120 million (2002: SKK 165 million).

8 Assets held for sale

	2003	2002
Property – real estate (Note 5)	429	371
Related equipment (Note 5)	36	48
	465	419

As a consequence of the restructuring of the Group certain items of property are no longer required for the purposes for which they were originally purchased. The assets held for sale are carried at lower of carrying amount and fair value less costs to sell.

9 Investments

	2003	2002
Investments held-to-maturity	-	282
Investments available-for-sale	44	-
	44	282

Debt securities amounting to SKK 282 million in 2002 were U.S. Dollar and SKK denominated Slovak Government guaranteed bonds. The bonds paid interest at a fixed rate of 9.5% to 12.0% and were purchased at a premium ranging from 0.5% to 4.9% to their nominal value. They matured in 2003.

The Group holds securities, for which management has the express intention of selling within the next 12 month. The securities are carried at fair value, which is based on quoted bid prices.

10 Receivables and prepayments

	2003	2002
Domestic trade receivables	1,853	2,403
Foreign trade receivables	362	323
Amounts due from related parties (Note 20)	82	155
Other receivables	268	176
Deferred installment fees	330	230
Prepayments	53	48
	2,948	3,335

All receivables fall due within one year. Trade receivables are shown after a provision for impairment of SKK 908 million (2002: SKK 757 million).

Foreign trade receivables and amounts due from related parties at 31 December 2003 include amounts due from international operators providing carrier services after set-offs in the amount of SKK 413 million (2002: SKK 505 million) with accounts payable to the same operator.

11 Cash and cash equivalents

	2003	2002
Cash	12,390	11,459
Cash equivalents	3,295	1,252
	15,685	12,711

The cash balance of the Group at 31 December 2003 includes SKK 10,767 million (2002: SKK 11,179 million) held in interest-bearing deposits on terms of less than three months. The cash equivalents contain short-term securities on terms of less than three months. There was no cash balance with restricted use as at 31 December 2003 and 2002.

12 Capital and reserves

On 1 April 1999 the legal form of the Company was changed from a state company to a joint stock company. Following the corporatisation, the share capital of the Company consisted of 20,717,920 ordinary shares authorised, issued and fully paid at par value of SKK 1,000 per share.

Pursuant to privatisation agreement effective 4 August 2000 the Company issued 5,309,580 new ordinary shares with par value of SKK 1,000 per share. The shares were issued at premium totalling SKK 11,632 million. All newly issued shares were subscribed and fully paid by Deutsche Telekom AG. The privatisation transaction also involved a purchase by Deutsche Telekom AG of 7,964,445 existing ordinary shares from the Slovak Government. The combined effect of the transaction was an acquisition of 51% of Slovak Telecom, a.s. by Deutsche Telekom AG.

As of 31 December 2003 the Group had authorised 26,027,500 ordinary shares (2002: 26,027,500) with a par value of SKK 1,000 per share. All issued shares were fully paid.

The legal reserve is set up in accordance with Slovak law and is not distributable. The reserve is created from retained earnings to cover possible future losses. In 2003, the Group transferred 10% of prior year statutory profit to the reserve fund.

On 5 December 2003 a dividend in respect of 2002 of SKK 2,056 million was approved by General meeting.

13 Interest bearing borrowings

	2003	2002
International Financial Institution loans	5,087	6,082
Slovak commercial banks	45	-
Finance lease obligations	-	33
Total interest bearing borrowings	5,132	6,115
Less Current portion of interest bearing borrowings	(740)	(793)
Long term portion of interest bearing borrowings	4,392	5,322

13 Interest bearing borrowings (continued)

Repayments of the long term portion of interest bearing borrowings fall due as follows:	**2003**	2002
Between one and two years	684	683
Between two and five years	2,023	2,821
After five years	1,685	1,818
	4,392	5,322

Loans from the World Bank and the European Investment Bank (together the "IFI's"), are subject to restrictive covenants which require the Group to achieve minimum ratios in respect of financial leverage, interest cover and debt service based on the IFRS consolidated financial statements. The IFI facilities are guaranteed by the Slovak Government and Syndicated Bank Guarantee. At 18 September 2002 the Group signed a new Syndicated Bank Guarantee for an amount of EUR 93 million (SKK 3,828 million) which expires in September 2007.

As of 31 December 2003 and 2002, there are no assets pledged as collateral for borrowings.

At 31 December 2003, the Group has total undrawn loan facilities available of SKK 200 million (2002: SKK 200 million). The facility is available for the period till 31 May 2004.

The carrying amount and fair value of interest bearing borrowings are as follows:

	2003	2002
Carrying amount	5,132	6,115
Fair value	5,402	6,387

Interest bearing borrowings can be analysed by currency as follows, after taking into account the impact of the cross currency interest rate swaps outstanding at 31 December 2003:

	2003	2002
Euro and EU member currencies	5,087	5,225
Slovak crowns	45	890
	5,132	6,115

13 Interest bearing borrowings (continued)

The Group is exposed to foreign exchange risk related to foreign currency debt and foreign exchange payments. Further, the Group's major financial market risk exposure is interest rate fluctuation. This is due to changing interest rates in the U.S. and Western Europe affecting the fair value of fixed rate debt. To control interest rate and foreign exchange risk, a combination of fixed and floating rate debt is used within the foreign currency portfolio and interest rate and currency derivative instruments are used (Note 19).

Interest bearing borrowings can be analysed into fixed rate and variable rate debt as follows, after taking into account the impact of the cross currency interest rate swaps and interest rate swaps outstanding at 31 December 2003:

	2003	2002
Fixed	4,000	5,383
Floating	1,132	732
	5,132	6,115

The average effective borrowings cost (total interest payable and other charges for Group's loans and borrowings) for the year ended 31 December 2003 were 5.06% (2002: 5.2%).

14 Deferred tax

The movement on the deferred income tax account is as follows:

	2003	2002
At beginning of year	4,339	4,413
Impact of change in the tax rate from 25% to 19% (Note 4)	(1,044)	-
Charge to income for the year	11	(74)
At end of year	3,306	4,339

Deferred income tax (assets) / liabilities and the deferred tax charge in the income statement are attributable to the following items:

14 Deferred tax (continued)

	31 December 2002	Credited/ charged to income	**31 December 2003**
Accelerated tax depreciation	4,650	(1,169)	3,481
Unrealised foreign exchange gains/ losses	(70)	81	11
Bad debt provision	(59)	11	(48)
Restructuring (Note 16)	(69)	45	(24)
Fair value of swaps (Note 19)	(92)	(5)	(97)
Onerous contract (Note 16)	-	(12)	(12)
Unpaid cash-based services	(20)	18	(2)
Other	(1)	(2)	(3)
Net deferred tax (asset) liability	4,339	(1,033)	3,306

	2003	2002
Deferred tax assets to be recovered after more than one year	(130)	(119)
Deferred tax liabilities to be settled after more than one year	3,133	4,333
	3,003	4,214

15 Trade and other payables

	2003	2002
Amounts due within one year		
Domestic trade payables	2,289	2,867
Foreign trade payables	432	229
Amounts due to employees	362	270
Payables to related parties (Note 20)	253	66
Accruals and other payables	976	751
Fair value of swaps (Note 19)	-	60
Dividend payable	2,056	-
	6,368	4,243

Foreign trade payables and payables to related parties include amounts due from international operators providing carrier services after set-offs with accounts receivable to the same operator. (Note 10)

16 Provisions

	Onerous contract	Restructur-ing	Legal claims	Other	2003 Total	2002 Total
Opening carrying amount	-	274	50	-	324	451
Additional provisions (Note 2)	63	127	31	15	236	367
Unused amount reversed	-	-	(50)	-	(50)	(203)
Amount used	-	(274)	-	-	(274)	(291)
Closing carrying amount	63	127	31	15	236	324
Non-current liabilities	-	-	-	15	15	50
Current liabilities	63	127	31	-	221	274
	63	127	31	15	236	324

The Group has signed a business contract for rent of satellite transponders for a period from 1998 to 2010. The transponder was subleased till 27 September 2003. Provision was created in 2003 to cover the unavoidable costs of meeting the obligation under the contract in excess of the expected benefits.

The restructuring of the Group's operations will result in the loss of 762 jobs in 2004. An agreement has been reached with the local union representatives based on a detailed formal plan that specifies the number of staff involved, location and function. The amount payable to staff to be made redundant was calculated using the method agreed with trade unions. The full amount of these costs to be incurred has been recognised in the current period. The termination benefits are expected to be paid within 12 months from 31 December 2003.

The amounts shown include a provision in respect of certain legal claims brought against the Group. In the opinion of directors, after taking appropriate legal advice, the outcome of these legal claims will not result in any significant loss beyond the amounts provided at 31 December 2003.

17 Net cash flows from operating activities

	2003	2002
Net profit	3,749	3,468
Adjustments for:		
Income tax	(116)	1,018
Depreciation (Note 2, 5)	5,781	5,508
Investment income (Note 3)	(61)	(73)
Interest (income) expense net	(70)	69
Share of results of associates and joint ventures (Note 6)	(719)	(408)
(Profit) / loss on disposals on fixed assets	20	(73)
(Profit) / loss on disposal of discontinued operation	-	(15)
Net foreign exchange (gains) losses and other noncash items	(319)	(351)
Provision charge (Note 16)	(88)	(127)
Operating profit before working capital changes	8,177	9,016
Decrease / (increase) in trade and other receivables	384	302
(Increase) / decrease in inventories	147	(15)
(Decrease) / increase in trade and other payables	609	(1,846)
Cash generated from operations	9,317	7,457
Income taxes paid	(647)	(2,207)
Net cash flows from operating activities	8,670	5,250

18 Commitments

Capital commitments

The Group had the following capital commitments at 31 December:

	2003	2002
Capital expenditure that has been contracted for but has not been provided for in the consolidated financial statements	1,446	1,109

The commitments under contractual arrangements principally relate to the telecommunications network, with the majority of payments due within one year.

The shared joint venture commitments are not included but shown in Note 6.

19 Financial instruments

Movements in derivatives during the year ended 31 December 2003.

	Cross currency swap
At 1 January 2003	
Fair value	399
Deferred income tax (Note 14)	(92)
	307
Movements during the year:	
Settlement of swaps (Note 3)	(60)
Change in fair value (Note 3)	169
Deferred income tax (Note 14)	(5)
Net balance at 31 December 2003	411
Non current liabilities	508
Deferred income tax (Note 14)	(97)
Net balance at 31 December 2003	411

The above derivatives do not qualify for hedge accounting under IAS 39 and therefore are measured at fair value.

Cross currency swaps

The Group has entered into cross currency interest rate swap contract to manage the exposure of the combined effect of fluctuation in foreign currency exchange rates and fluctuation in interest rates on specific transactions: repayments of both foreign currency borrowings and interest charge.

At 31 December 2003 the outstanding principal amount payable by the Group under cross currency interest rate swap was EUR 38 million. The Group expects to receive the income at variable interest rates and to pay an expense at variable interest rates. At 31 December 2003 the interest rate received was 1.28% and interest rate paid was 2.37%. Cross currency interest rate swap matures in 2010.

20 Related party transactions

The Group provides services to State departments and related businesses, in general, on normal commercial terms.

The Group receives revenues from and pays expenses to its joint venture EuroTel and to its parent company Deutsche Telekom AG and its subsidiaries, associates and joint ventures, for calls which access each others network and other services. Furthermore, Deutsche Telekom and T-Systems provide the Group with management and consultancy services. All revenues and costs are based on contractual agreements negotiated on normal commercial terms. Payables to Deutsche Telekom include the payable in the amount of 1,049 from dividend declaration (Note 12).

	Receivables		Payables		Revenues		Expenses	
	2003	2002	2003	2002	2003	2002	2003	2002
EuroTel	75	65	106	55	761	862	1,014	948
Deutsche Telekom	-	83	1,110	2	-	243	110	429
T-Systems	4	-	81	-	399	-	303	-
Other	3	7	5	9	57	82	66	167
Directors	-	-	-	-	-	-	4	3
Total	82	155	1,302	66	1,217	1,187	1,496	1,547

Other includes Deutsche Telekom's subsidiaries, associates and joint ventures. Transactions related to Carrier Services with T-Systems were performed and disclosed in 2002 as transactions with Deutsche Telekom.

21 Contingencies

The Group is in legal proceedings in the normal course of business and regulatory proceedings. Management is confident that the Group will suffer no material loss as a result of such proceedings and therefore no provision was made in respect of these disputes in excess of the provision already recorded in the consolidated financial statements (Note 16).

The Group's joint venture EuroTel is in legal proceedings in the normal course of business. Management of EuroTel does not believe the resolution of any current legal proceedings will have a material adverse effect on EuoTel's financial conditions, result of operations or cash flows.

22 Post balance sheet events

Changes in top management

Mr. Igor Hurčík became the new Executive Vice-President for Information Technologies of Slovak Telecom, a.s. at 1 February 2004. He was appointed to the position by Board of Directors at the meeting held on 5 December 2003.

Rebranding

As a reflection of the changed strategy, Slovak Telecom's operations, formerly Slovenské telekomunikácie a.s., began operating under the "Slovak Telecom" brand on 15 January 2004.

Change of VAT rate

The value added tax rate applicable for telecommunications services has changed from 20% to 19% according to VAT Act No. 289/1995 Coll. and Act No. 255/2003 Coll. effective from 1 January 2004.

Report of the auditors

To the shareholders of Slovak Telecom, a.s.

We have audited the accompanying consolidated balance sheet of Slovak Telecom, a.s. ("the Company") and its subsidiaries and joint venture ("the Group") as of 31 December 2003, and the related consolidated statements of income, cash flows and changes in shareholder's equity for the year then ended. These financial statements set out on pages 44 to 74 are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2003, and the consolidated results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers Slovensko, s.r.o.

Bratislava

27 February 2004

Proposal for profit distribution for the year 2003
approved by corporate bodies is as follows:

Profit after tax (in accordance with Slovak Accounting Standards)	**SKK 3,436m**
Distribution to funds:	
Reserve fund	SKK 344m
Social fund	SKK 13m
Retained earnings	SKK 3,079m