Slovak Telecom, a. s.
Námestie slobody 6
817 62 Bratislava 15

tel.: +421 (0)2 – 5881 1111
fax: +421 (0)2 – 5249 1767
http://www.telecom.sk
e-mail: corporate.office@st.sk

customer services centre: +421 – (0)800 123 456

Annual Report 2004

Annual Report 2004

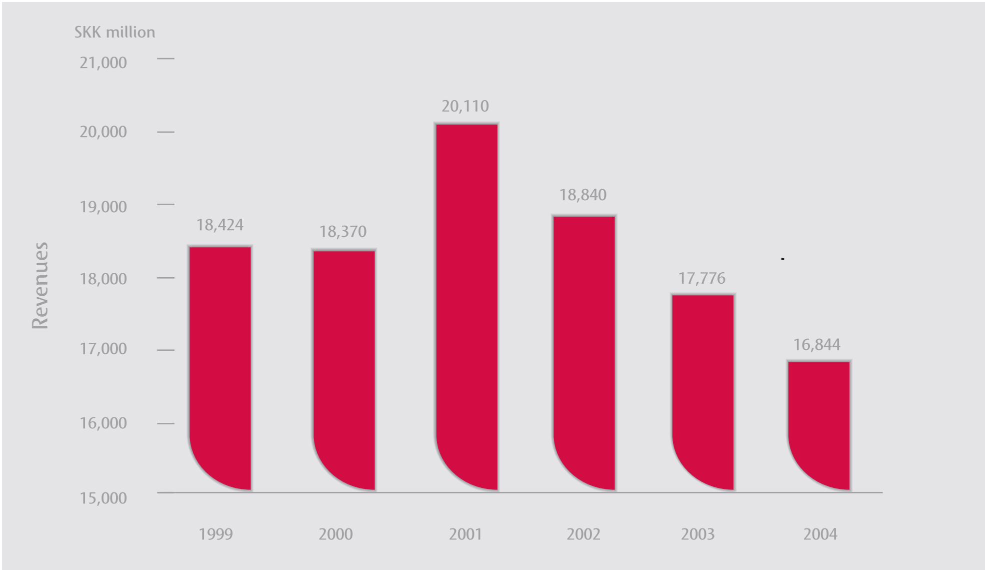
Annual Report 2004

Slovak Telecom

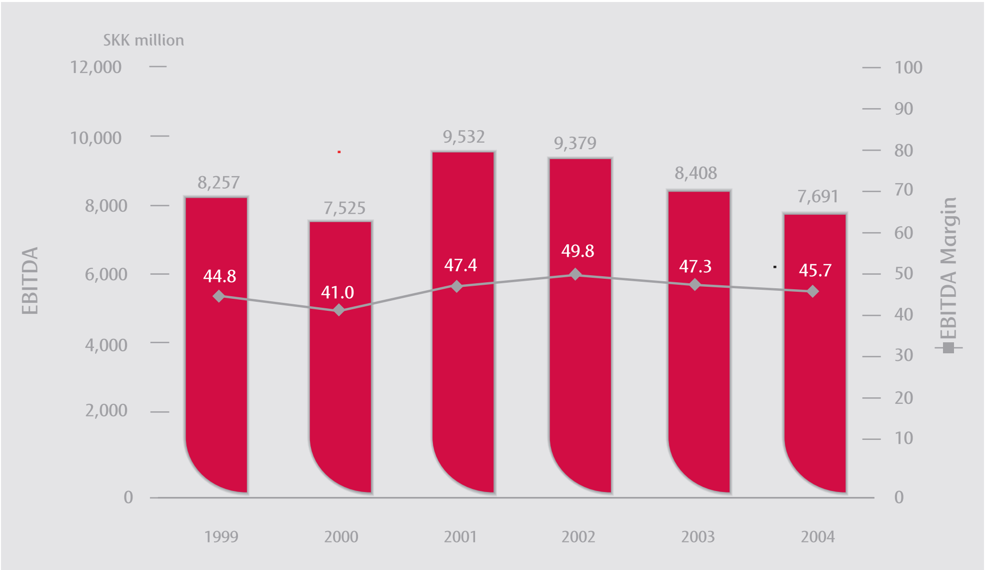
We have matured.

We respect our past. Today new goals and challenges lie ahead of us. We are ready to resolve them to the utmost satisfaction of our clients and partners.

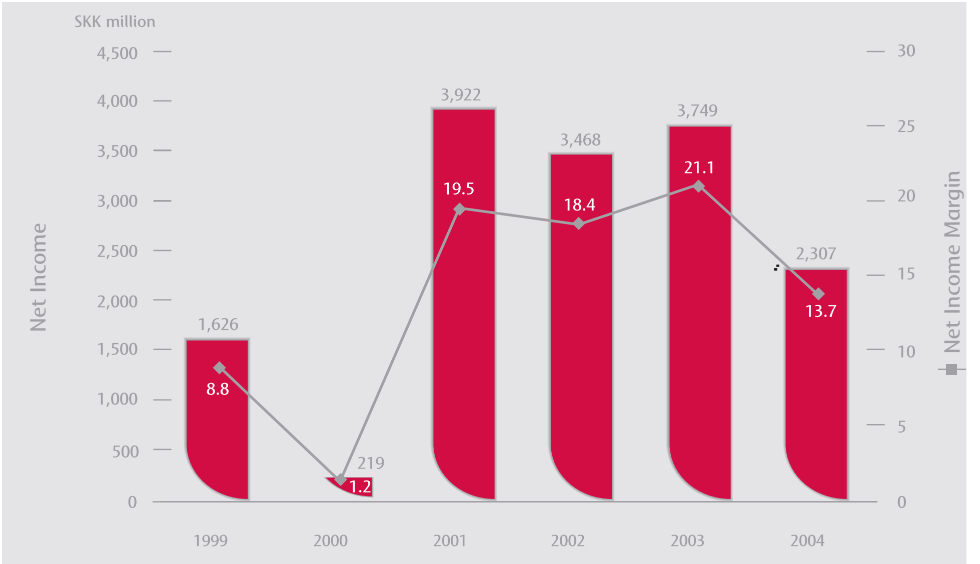
Revenues



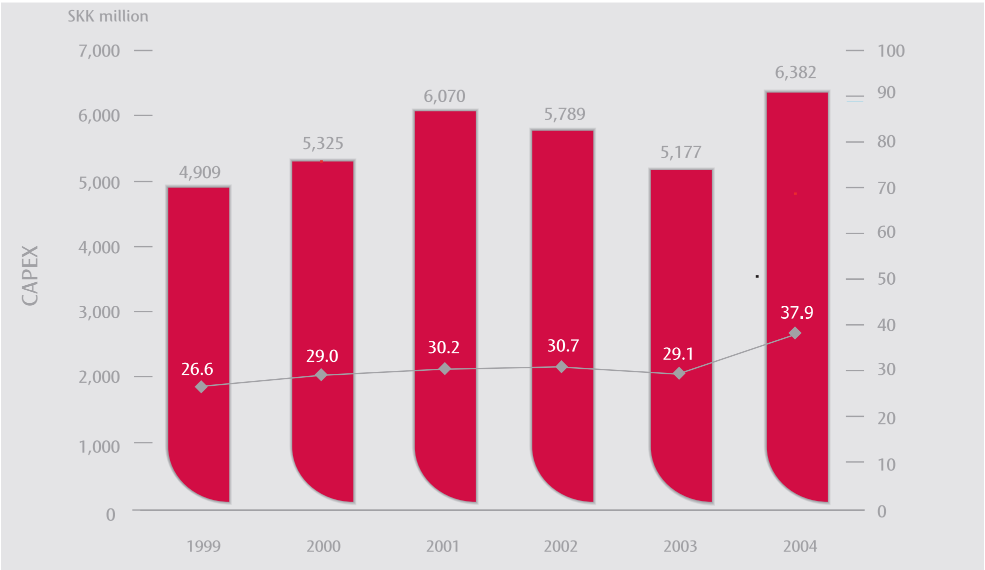
EBITDA/ EBITDA Margin



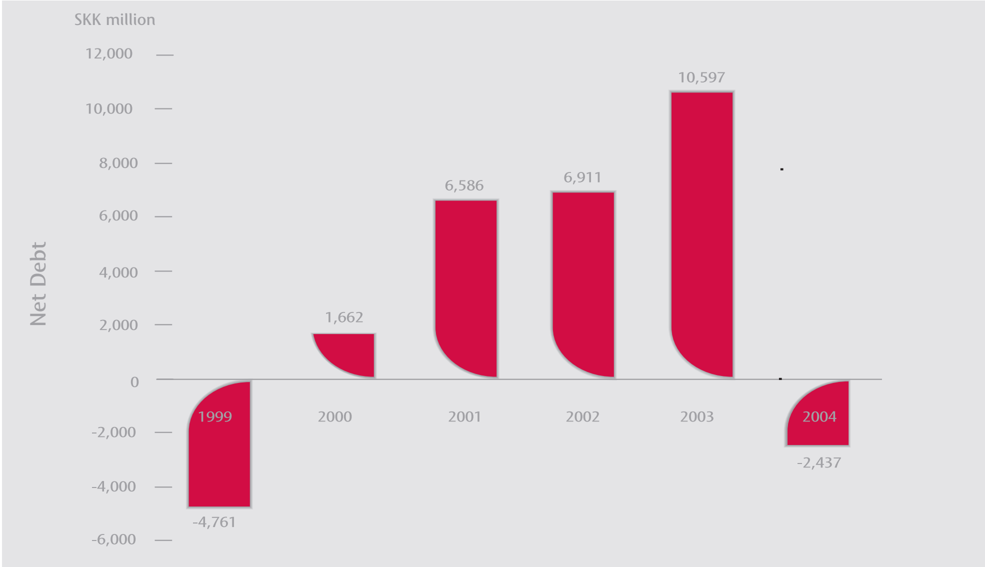
Net Income/ Net Income Margin



CAPEX

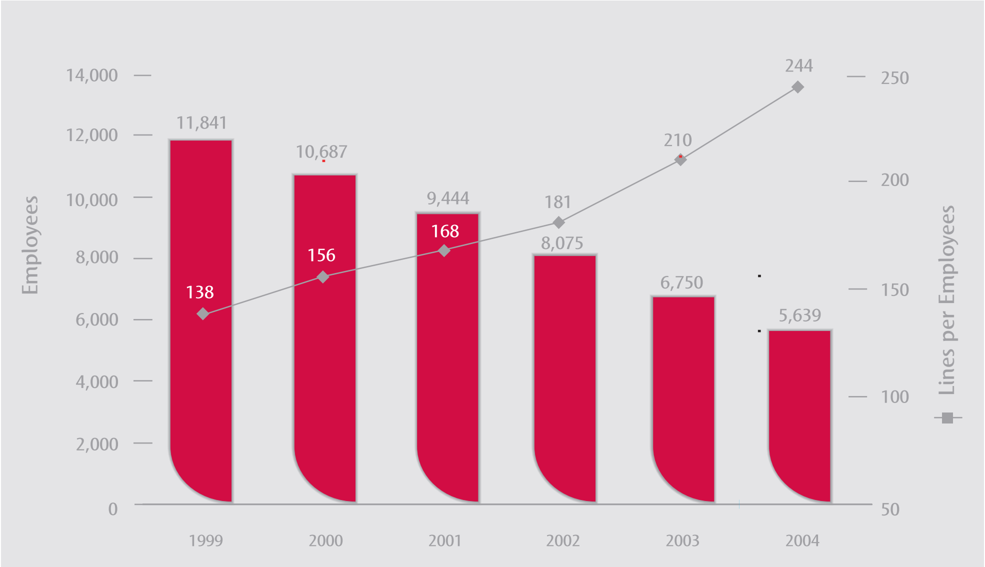


Net Debt



Net Debt = Cash and Cash Equivalents + Marketable Securities – Liabilities to Banks

Employees/ Lines per Employees



Lines = Main Telephone Lines, ISDN B-channels and Public Payphones
Employees = end of the year without Rádiokomunikácie branch

Contents

2004 Milestones

January 2004

- The company was re-branded from Slovenské telekomunikácie, a. s. to Slovak Telecom, a. s. and a new corporate identity was introduced.
- The PCs for Schools project was officially launched, making it possible to equip each primary and secondary school with a new computer classroom thanks to a SKK 1bn donation by Deutsche Telekom AG.

February 2004

- Shareholders adopted the decision to implement the NGN (Next Generation Network) technology.

March 2004

- The ST DSL customer base surpassed 10,000
- The Slovak Youth Chamber honoured Slovak Telecom with the 'Most Successful Company of 2003' award in the Internet services provider category.

April 2004

- Launch of the implementation of NGN technology to our network.
- Prices for calls abroad were cut on the occasion of Slovakia's accession to the European Union
- Implementation of the PCs for Schools project was started, representing one of the largest informatisation projects in Slovakia.
- Launch of max club – the loyalty programme for Slovak Telecom's customers.
- The company was granted the top award in the nationwide Corporate Medium 2003 contest for its intranet site.
- The visuals of the price communication campaign "Bench, Tram, Glass" won the Strieborný klinec award in the contest of "Most Creative Advertisement".

May 2004

- Broadband DSL technology was rolled out to the mass market, the transmission rate was increased and new ST DSL products launched.
- The eTablo 2004 online internet contest for secondary school graduates was announced as part of the PCs for Schools project.

June 2004

- The company is one of the first accreditation centres to be given accreditation to grant the ECDL (so-called European PC "driving" license) certificate.
- New ST Pohoda and ST Extra calling plans were introduced to the market.
- Slovak Telecom's CEO, Miroslav Majoroš, was the only representative of Central and Eastern Europe to meet His Royal Highness Prince Charles as part of the Seeing is Believing programme.

July 2004

- Slovak Telecom supported the Infovek Summer Schools project, focusing on teachers' education and PC literacy.
- The company's internet portal www.telecom.sk won the prestigious Microsoft Industry Awards.

August 2004

- Family Internet – the new flat-rate dial-up-based product designed for residential customers was launched.
- The first migration of customers from analogue exchanges to NGN technology was carried out.

September 2004

- The range of services offered via the 1181 and 12149 enquiry services was extended by services such as call completion and delivery of a found number by fax or e-mail.

- The eČasopis 2004 and Žiacka knižka 2004 online internet competitions were announced as part of the PCs for Schools project.
- Slovak Telecom publicly announced its interest in acquiring a 49% share in EuroTel Bratislava, a. s. from the American Atlantic West B.V. consortium.

October 2004

- As one of the organisers and partners of the international conference "Will Slovakia become a part of information Europe?", the company prepared proposals for the Government suggesting how to proceed with the systematic development of an information society in Slovakia.
- Slovak Telecom completed the PCs for Schools project in a record-breaking 6 months, during which time all Slovak primary and secondary schools were equipped with a new computer classroom, with more than 90% of them being connected to the internet thanks to the support of the company.
- The "SMS over fixed lines" service was introduced.

November 2004

- The company became one of the founding members of the Business Leaders Forum (BLF) and signed the Memorandum on Corporate Social Responsibility. The CEO was appointed president of the BLF for 2005.
- Slovak Telecom was honoured with the Best Annual Report 2003 Award in the printed and electronic version categories.
- Pavol Kukura, a representative of the company, was elected vice-chairman of ETNO (European Telecommunications Network Operators Association at the EU) for 2005.

December 2004

- Digitalisation of the public telecommunications network was finished.
- Slovak Telecom completed the acquisition of EuroTel Bratislava, a. s., after its approval by the European Commission.
- The company was granted the ISO 9002 certificate for business segment sales processes
- ST DSL was made available to 2.9 million citizens in 119 municipalities throughout Slovakia.

Company Profile

We are a leader in the field of telecommunications services provided in Slovakia with an extensive history. We provide national and international telephone services and a wide range of data services and Internet services, including broadband access. We also provide for the distribution and broadcasting of radio and television signals and offer a broad range of value added services. We form part of Deutsche Telekom Group – a multinational group of companies.

Registered office:
Nám. slobody 6, 817 62 Bratislava

Legal form:
joint-stock company

Date of incorporation:
1 April 1999

As per the Excerpt from the Companies Register our business activities include:

- transmission, broadcasting and reception of radio, television and other communication signals for statutory operators and operators holding relevant licences,
- provision of telecommunication and radiocommunication 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,
- performance of activities related to the preparation and performance of tasks in emergency situations and during a state of military alert in line with the orders of competent authorities,
- preparation and updating of information databases for information systems in the telecommunications sector,
- publishing, distribution and sale of directories of subscribers of individual telecommunications services (on various media),
- connection of a specific part of the PTN (public telecommunications network) to the international telecommunications network, concluding of international agreements in telecommunications related to the business activities of Slovak Telecom, proposing prices and tariffs for domestic and international services, including billing and clearing thereof.

Shareholders
The majority shareholder of Slovak Telecom is Deutsche Telekom AG with 51% of shares, followed by the Ministry of Transport, Postal Services and Telecommunications of the Slovak Republic with 34% of shares, and the National Property Fund (FNM) with 15% of shares.

Subsidiaries
On 31 December 2004 Slovak Telecom became the sole owner of EuroTel Bratislava, a. s. which provides mobile communication services and operates data networks. EuroTel Bratislava, a. s. operates the following three networks: GSM (900 and 1,800 MHz) digital network, public data network and NMT analogue network. Slovak Telecom purchased the remaining 49% of shares in EuroTel Bratislava from the Atlantic West B.V. consortium. With the completion of the transaction EuroTel

Bratislava, a. s. will remain a separate and independent legal entity.

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

Membership and cooperation with Slovak associations by profession and industry

Our company is a member of the following key national organisations operating in the field of information and communication technologies and business development focused on activities in support of developing an information society:

- Slovak Foreign Policy Association (SFPA),
- Communications Technologies Forum,
- IT Association Slovakia (ITAS),
- Slovak Association of Electronic Commerce (SAEO),
- The Business Alliance of Slovakia (PAS) – Centre of Economic Development.

We are also a member of the Slovak Chamber of Commerce and Industry, the American Chamber of Commerce and the French Chamber of Commerce.

Involvement in international organisations

We are represented in the standardisation, radio-communications and development sectors of the International Telecommunications Union (ITU). Our company is a shareholder in EURESCOM (European Institute for Research and Strategic Studies in Telecommunications) and is a member of the following organisations:

- ETNO (European Telecommunications Network Operators Association),
- ETP (European Telecommunications Platform),
- ETIS (e- and Telecommunications Information Services),
- ETSI (European Telecommunications Standards Institute).

Corporate Identity

Company vision

The vision of Slovak Telecom 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.

Company mission

Slovak Telecom's mission is as follows:

- We feel 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,
- We utilise our know-how in service integration as benefit for our customers to make their business and private life easier,
- We 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,
- We are committed to financial growth of the company,
- We attract, motivate and develop capable, committed employees and reward performing employees.

Corporate values

ST SPIRIT – corporate values that we aspire to:

S – Superior value
P – Passion for our customer
I – Innovation
R – Respect
I – Integrity
T – Top Excellence

Employee Code of Ethics

Employee Code of Ethics is the basic document that shapes the corporate culture of Slovak Telecom. Based on our vision and values, the Code of Ethics strongly supports our business strategy. It is also a link between our company and the visions, values and strategy of our majority shareholder – Deutsche Telekom AG.

The Code of Ethics, including the Behaviour Standards that our company follows, is closely linked to the Standards of Customer Orientation and Behaviour. The standards are applied in relations with our customers and external partners, as well as with our colleagues, i.e. our internal customers.

Acceptance of the Employee Code of Ethics is a key prerequisite for successful co-operation based on shared principles and rules. Adhering to the principles of the Code makes us a trustworthy partner in the eyes of our customers and colleagues.

Corporate social responsibility

We consider corporate social responsibility a fundamental attribute of a modern company. We have positioned ourselves as a responsible corporate citizen through our activities in the field of corporate social responsibility. We feel committed not only to the quality of our products, but also to the quality of life in the community in which we live and do business. This is reflected in the fact that we were a founding member of the Business Leaders Forum, the aim of which is to spread the principles of corporate responsibility.

Address of Horst Hermann, Chairman of the Board of Directors

The market of telecommunications and info-communications services is, due to its regulation and increasing competition, seen as a very challenging market, where only the best companies can succeed. This is true for the whole world and for Slovakia as well. Such top companies have to demonstrate a detailed knowledge of the customers needs, they always have to respond to such needs with a new and attractive product portfolio while building on innovations supported by technology. Innovations proved to be the key value driver in the telecommunications market. In this view and with regard to the results achieved, the year 2004 can be considered a success for Slovak Telecom. Our achievements are positively perceived by our customers and by the shareholders.

In the continuous effort to position Slovak Telecom as the preferred operator last year was marked by many strategic decisions, some of which have already positively impacted on our company's operations, other will in the near future fundamentally influence our market position.

The new brand underlying a Slovak Telecom which is even more market and customer focused was well accepted. The change of the brand also marked the entrance of Slovak Telecom into an extensive restructuring in order to establish itself as a successful and competitive operator for the challenges to come.

The portfolio of products and services expanded significantly, the calling plans and internet services saw new offers. Slovak Telecom will continue to set up new products according to customer requirements. In addition to a large array of voice and data services, the key product of 2005 will be broadband internet access via the DSL technology.

At the beginning of 2004 the Board of Directors decided about the implementation of the so called

Next Generation Network technology. Given the fact that voice and data convergence is gradually pushing through more intensively in the area of telecommunications technologies, Slovak Telecom has completed the digitalisation of its network by means of this technology. The construction of a uniform high-speed network capable of transmitting voice, data and multimedia applications will improve the efficiency of the company significantly.

Another important decision in the life of Slovak Telecom was taken by the Board of Directors as to the acquisition of the remaining 49% of shares of EuroTel Bratislava. The full control over the mobile business will enable to materialize synergies in both ways – in Slovakia between Slovak Telecom and EuroTel and in international scale in corporation with the T-Mobile International Group.

Last year, with its dynamic development in the telecom market, ever new and expanding customer requests and even fiercer competition, we adopted decisions to increase the dynamics and widen the scope of transformation changes in the company. The goal is to attain the efficiency of company's operations comparable to the best European telecommunications operators, to speed up the development of new products and services, and all that with the help of cutting-edge technologies. We are confident that this is the only approach to let us convert Slovak Telecom to a so-called Next Generation Operator that will be able to face all challenges of the market.

I am very glad that Slovak Telecom has preserved its conduct of a responsible corporate citizen also in the past year and continued – as part of its eSlovakia strategy – in supporting the internet penetration throughout Slovakia. Slovak Telecom managed to successfully implement a project of utmost consequence in the history of the Slovak school system – in a unique project called "PCs for Schools" all primary and secondary schools were equipped with new PC classrooms and connected to the internet.

The year 2004 again was a challenging one for all employees and managers of Slovak Telecom. I would like to say my thank you for "having passed this exam" and also express my conviction that the year 2005 will bring new tasks that we are ready to fulfil. Continuing our transformation to a competitive and customer driven company will certainly be an important foundation of the broadband services development and information society of Slovakia.

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

Address of Miroslav Majoroš, President/CEO

The year 2004 brought with it many challenges for Slovak Telecom. It was also a year of major successes the importance of which influenced not only our company, but the whole of Slovak society. The last year represented a significant milestone in the ongoing transformation of the company, since our new strategy aiming to change Slovak Telecom to a so-called next generation telecommunications operator substantially changed the quality of all transformation processes and also increased their pace.

The competition on the telecommunications services market continued to grow last year, resulting in a reduced share of earnings from voice services provided over the fixed telecommunications networks in total earnings generated by the telecommunications industry. The decline, which reflected also in a 5.2% drop in total earnings over 2003, could not have been offset even by a higher share of provided internet services, which in our service portfolio grew faster than the dynamic growth of the overall internet market. On the other hand, 2004 saw an increase in the efficiency of all corporate processes, which in turn has brought us more in line to efficiently functioning telecommunications operators in Europe, as well as in the rest of the world.

Re-branding and a change of corporate identity were among the key changes to take place in the past year. It was a natural milestone in the life of our company, which has undergone revolutionary changes in the past four years following the entry of the strategic foreign investor – Deutsche Telekom AG. This step was, at the same time, a clear signal that we had changed and would fulfil our long-term objective to become a universal telecommunications operator providing comprehensive communication services to both residential and corporate customers. Market surveys have proven that our customers not only identify with the new corporate identity, but that thanks to it our marketing communication has become much more attractive and effective.

Customer satisfaction is one of the strategically monitored parameters of our company's evaluation. We accommodate to our customer's needs, changing from a technology oriented company to a customer oriented one. Our efforts resulted in marked improvement of the so-called TRI*M index of customer satisfaction, with its value in the residential as well as corporate segments exceeding the level of European incumbents, i.e. fixed line operators with an extensive history in the telecommunications industry.

Implementation of state-of-the-art NGN (Next Generation Network) technology was at the centre of our attention in terms of the introduction of new technology. NGN technology helped us complete the digitalisation of our network. It is the most advanced technology that allows for the centralised launch of new services, making them quickly available to the entire market. I am extremely glad that we have managed to rise to the challenge with prestige, even though we were the first company within the Deutsche Telekom AG Group to deploy the technology to a scope that is rare also in Europe. Completion of digitalisation of the public telecommunications network through NGN is undoubtedly a major success that will reap many long-term strategic advantages over other telecommunications operators for our company.

The year 2004 was also marked by broadband connection to the internet. Here we accelerated the expansion of ADSL technology penetration throughout Slovakia. As many as 2.9 million inhabitants in 119 Slovak towns and villages had the chance to enjoy the benefits of ADSL at the end of the year. The ADSL customer base registered by Slovak Telecom at the year end came to 38,334.

Slovakia's accession to the European Union reflected also in changed regulatory conditions in the telecommunications market and brought about a rise in competition in the area of telecommunications services. For some time now Slovak Telecom has faced the competition of mobile operators and alternative operators offering a comprehensive range of telecommunications services. We continued with intensive negotiations on the interconnection of our network with the networks of other telecommunications operators. The first interconnection contracts are expected to be signed at the beginning of 2005.

We kept on heavily investing in our infrastructure, with total investments constituting as much as 38% of total revenues in 2004, i.e. SKK 6.4bn. The biggest part of this amount accounted for investments in the completion of digitalisation of the public telecommunications network, NGN technology implementation, and growth of ADSL penetration.

To contribute to the improvement of the quality of life of the Slovak population is not only a challenge for our company, but rather an obligation. We actively and effectively supported charity and philanthropic projects also in 2004; our support brought various notable cultural events to life. Last year Slovak Telecom became a founding member of the Business Leaders Forum (BLF) – an informal association of companies that has the objective of spreading the idea of corporate social responsibility in Slovakia.

Support for the development of a modern information and communication society is a part of our company's mission. We are proud that a considerable financial contribution of our majority shareholder – Deutsche Telekom AG, enabled us to equip all primary and secondary schools with a modern computer classroom and connect more than 90% of all schools to the internet. The PCs for Schools project became one of the most significant projects in the history of informatisation in all of Slovakia.

The year 2004 was a difficult year and so I would like to thank all the managers and employees for their hard effort and for their good work. I am convinced that the experience gained last year will be capitalised on this year. The year 2005 will, in all probability, be a year of the greatest changes in the history of the Slovak telecommunications market. It will be marked by the introduction of a new brand and products in the field of mobile communications, by the entry of alternative fixed line operators, and by ever fiercer competition. We will not stand aside, but launch the type of products and services that will persuade customers to stay loyal to our brand. All of this will take place against a background of ongoing technological innovations and the transformation of Slovak Telecom. It will undoubtedly be a challenging year, but I firmly believe it will be even more successful than 2004.

Miroslav Majoroš
President/CEO
Slovak Telecom, a. s.

Members of the Executive Management Board

Ing. Miroslav Majoroš
President/CEO

Miroslav Majoroš graduated from the Faculty of Electrical Engineering and Information Technology of the Slovak University of Technology in Bratislava and has held several top managerial positions in companies such as Slovenská televízia and IBM, both in Slovakia and abroad. In January 2003 he became President/CEO of Slovak Telecom and in April of the same year was elected a member of the Board of Directors. Mr. Majoroš is also president of the Business Leaders Forum, the leader in the field of corporate social responsibility.

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

Mark von Lillienskiold studied law at Bonn University. He has worked in top managerial positions for companies such as Bayer, B.A.T., MATÁV and Deutsche Telekom AG. Appointed Senior Executive Vice-President/CFO in December 2000, he is also a member of the Board of Directors.

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

Herbert Müller completed university studies at the Technical University in Berlin. He has spent many years with the parent company Deutsche Telekom AG and its foreign acquisitions, occupying top managerial positions. Mr. Müller joined the company in November 2002 as Senior Executive Vice-President for Marketing and Sales and acting CTO. He was appointed Senior Executive Vice-President/COO in August 2003.

PhDr. Anna Hudáková
Executive Vice-President/CHRO

Anna Hudáková graduated from the University of Pavol Jozef 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 Executive Vice-President/CHRO in January 2001. Anna Hudáková is also president of the Human Resources Management and Development Slovak Association.

Igor Hurčík
Executive Vice-President/CIO

Igor Hurčík studied law and economics at Zürich University. He has occupied top managerial positions in several financial institutions in Europe and the rest of the world. Before joining Slovak Telecom as its CIO in February 2004, Igor Hurčík worked for Deloitte & Touche Slovakia as Director of Financial Advisory Services & Business Development.

Until 31 January 2004, the position of Executive Vice–President/CIO was held by Dr. Torsten Minkwitz.

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

Pavol Kukura studied and worked at the Faculty of Electrical Engineering and Information Technology of the Slovak University of Technology in Bratislava. He has held top managerial positions in several international companies, e.g. Alcatel, AT&T, and Lucent Technologies. Appointed Executive Vice-President/CSRO in October 2003, Pavol Kukura is also Vice-Chairman of the General Meeting of ETNO (European Telecommunications Network Operators' Association at the EU).

Corporate Bodies

Board of Directors

Horst Hermann	chairman
Ing. Štefan Bugár	vice-chairman
Ing. Miroslav Majoroš	member
Dr. Ralph Rentschler	member
Dr. Mark Peter Montagne von Lillienskiold	member
Ing. Gabriela Vavríková	member
Ing. Peter Stropko	member

Supervisory Board

Ing. Martin Velecký	chairman
Dr. Frank-Reinhard Bartsch	vice-chairman
Hans-Peter Engel	member
Albert Matheis	member
Ing. Pavel Kyman	member
Ing. Jozef Opát	member
Ing. Ľudovít Hintoš	member
JUDr. Eleonóra Valentová	member
Ing. Alojz Glinský	member

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 part of the management system that determines the basic structure of the company as follows:

- corporate bodies
- Slovak Telecom, a. s.
- branch

with the objective of efficiently running the company's operations.

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 the company's business activities.

Board of Directors is the statutory body of the company. It is authorised to act on behalf of the company in all matters and represents the company 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 under the jurisdiction of other corporate bodies by law, or pursuant to the Articles of Association, or are delegated to other corporate bodies by the Board of Directors. The Board of Directors appoints 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
- Strategy & Regulatory Affairs Unit reporting to Chief Strategy & Regulatory Officer
- Operations Unit reporting to Chief Operating Officer
- Human Resources Unit reporting to Chief Human Resources Officer
- Information Technologies Unit reporting to Chief Information Technologies Officer
- Finance Unit reporting to Chief Finance Officer

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

Rádiokomunikácie, o.z. is an organisational unit of Slovak Telecom, a. s. registered in the Companies Register. In co-operation with its subsidiary, RK Tower, s.r.o., Rádiokomunikácie provides the following portfolio of commercial services:

- Radio broadcasting on the FM, MW and SW bands for the statutory operator and license holders
- Television broadcasting (transmitters and TV converter) for the statutory operator and license holders
- Slovak Link services – distribution of radio and television broadcasting via satellite (Slovenská televízia, Televízia Markíza, Slovenský rozhlas, Rádio Twist, Rádio Expres, Fun Rádio, Rádio Lumen, Rádio Okey)
- Transfer of modulations and data by means of transmission and radio relay routes
- Mobile transmissions
- Lease of technology premises and masts
- Frequency planning, measuring coverage and useful/interfering signals
- Design activities
- Special assembly activities, production of constructions and components related to broadcasting

In December 2004, Rádiokomunikácie launched a pilot project of digital broadcasting in the DVB-T standard in Banská Bystrica and Zvolen, thus taking another step towards introducing proper digital broadcasting in Slovakia.

In 2004, Rádiokomunikácie continued with structural changes and investments in new technologies, which led to a significant increase in the productivity and overall efficiency of the branch. Its workforce constituted 435 as at 31 December 2004. With respect to the strategic intentions of our company to focus on core activities, the intention to spin off Rádiokomunikácie from Slovak Telecom is being pursued further.

Clear objectives, clear strategy – we know where we are heading.

With respect to the radical changes that have been shaping the telecommunications market in recent years, we are also undergoing a process of restructuring. It is focused on increasing the efficiency of the company to the level of European fixed line operators and on adjusting it to changing market conditions. We were successful in reaching the goals set out for 2004, namely by obtaining a competitive costs structure, by customer retention, by reducing faults in operational activities to a minimum, by maximizing voice service contributions aimed at funding growth possibilities and by targeting the resources, investments and company on performance.

Slovak telecommunications market in 2004

In 2004 the total earnings of the telecommunications industry amounted to approximately SKK 53.7 billion with a year-on-year growth of 10.2%. The decline of fixed line penetration from 26.3% to 25.5% at the end of 2004, a lower volume of voice traffic in the fixed network and a general tendency of falling prices in voice services caused by growing competition, led to a year-on-year drop in fixed line revenues by 7%. In 2004 alternative operators that focused mainly on VoIP services for business customers achieved an estimated year-on-year growth in voice service revenues of 14%.

In 2004 the internet market was the most dynamically developing telecommunications market in Slovakia. Total estimated earnings of internet service providers in Slovakia grew by approximately 30% year-on-year. The growth was influenced mainly by the expansion of broadband internet, which was accessible to 2.9 million inhabitants in Slovakia by the year end. At the end of 2004 the ST DSL customer base rose to 38,334. The number of analogue dial-up internet users rose slightly in the course of last year; the total number of users reached the level of 160,000 by the year end. Access to the internet through GPRS/EDGE technologies, provided by both mobile operators, posed serious competition to dial-up internet.

The data service market registered an estimated growth of 11% in the past year, with Virtual Private Network services based on IP MPLS technology being the most dynamic segment of the market. On the other hand, revenues from standard technologies, such as Leased Lines or Frame Relay grew only slowly.

Legislation and Slovakia's accession to the European Union

Slovakia's accession to the European Union was reflected also in modified conditions for regulation of the telecommunications market. EU legislation was incorporated into the new Act on Electronic Communications, which took effect on 1 January 2004. The main purpose of the Act was to incorporate the new EU regulatory framework into Slovak legislation. The Act on Electronic Telecommunications reinforced the position of the Telecommunications Office of the Slovak Republic, which is now entitled to impose new obligations on undertakings with significant market power on the relevant market. We are ready for the implementation of the EU legislation, the entry of new companies to the market and their activities, and for competitive pressure connected with the accession of Slovakia to the European Union.

Network interconnection

During 2004 we continued in negotiations with alternative operators on network interconnection for the purpose of providing voice services. The Telecommunications Office of the Slovak Republic entered the negotiations and at the end of September it issued a second instance decision on the technical and operating conditions of interconnections. Our draft contract on interconnection was amended based on the decision. The draft was submitted to all eligible applicants for the interconnection who were interested in negotiations. At the end of 2004 we intensively negotiated with seven companies.

2004 in Slovak Telecom

Last year we focused mostly on the implementation of the most advanced technologies, development of broadband internet access and on support of informatisation in Slovakia. Our effort to be perceived not only as a voice services telecommunications operator, but also as a universal telecommunications operator, was underlined in January 2004 by a change of business name, brand, logo and the entire corporate identity. The new business name should give our customers a clear signal that we have changed and that we have been planning to bring attractive innovations and solutions in order to make their lives easier. In 2004 we intensified the transformation process, the primary goal of which was to change the company so that it could successfully survive under new market conditions and to strengthen its position on the market.

To become a competitive company we decided to implement the state-of-the-art NGN (Next Generation Network) technology. Thanks to the new technology we completed network digitalisation and so satisfied our obligation arising from the privatisation of the company in 2000 and from the licence conditions. Moreover, we were the pioneer company within the Deutsche Telekom AG Group to implement the NGN technology in an extent unmatched throughout Europe. By introducing NGN technology we moved closer to its strategic goal of becoming a Next Generation Operator that is able to integrate voice, data and IP services on a single technological platform and to offer new innovative products and services while preserving optimum cost efficiency.

Strategic orientation for 2005

We expect the year 2005 to see major changes in the history of the Slovak telecommunications market. It will be marked by the entry of a new brand and new products in the field of mobile communications, by the entry of alternative operators to the fixed network market and by more intensive competition generally. In terms of legislation, a new amendment to the Act on Electronic Communications is expected and in terms of shaping the telecommunications market the year 2005 will bring the conclusion of contracts on the interconnection of our networks with networks of other fixed alternative operators. These changes will offer customers opportunities for call-by-call carrier selection, carrier pre-selection and number portability. On the other hand, we also expect to see further consolidation of alternative operators, since it is quite unlikely that the shrinking market of fixed voice services will allow for the existence of a greater number of operators.

We anticipate major changes in the market of mobile communication services next year. Owing to the full acquisition of EuroTel Bratislava, a. s. the preconditions for integration of EuroTel to the T-Mobile International Group were created and its customers will take full advantage of membership in this Group.

The objectives that we set for 2005 were derived directly from our strategy and the development of the telecommunications market. One of the main objectives of 2005 is to stabilise the customer base and to offer products that better reflect customer requirements and needs. We will endeavour to achieve greater broadband penetration and to win at least another 50,000 clients for the broadband connection, thereby taking the total number of DSL connections to 90,000. We will also continue with transformation of the company into a Next Generation Operator, while increasing its internal efficiency and productivity.

We have achieved a lot and still want to achieve more.

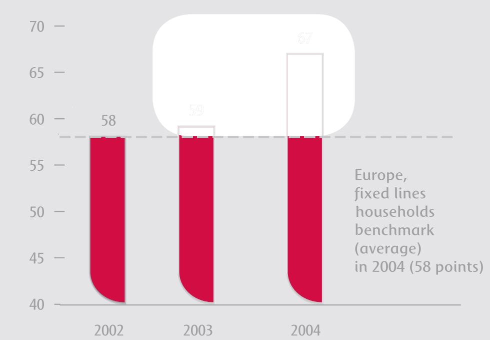
We have re-shaped our company, increased our efficiency, deployed world cutting-edge technology and ultimately strengthened our market position through new products and better services for our customers. All in all, we have made a huge step forward to become a Next Generation Operator.

Customers at the centre of our attention

Through the eyes of the customers

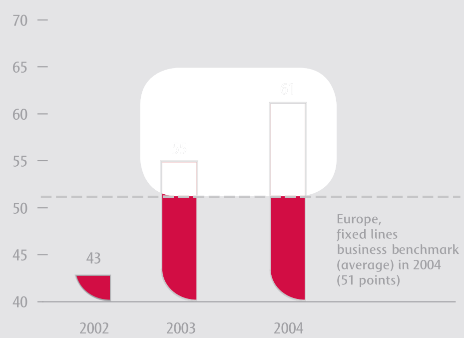
In 2004 we enjoyed extraordinary success in a survey monitoring the satisfaction and loyalty of our customers known as TRI*M, where we reached values highly in excess of the European fixed operators' benchmark for both residential and business customers. Our company thus belongs to 10% of the top fixed lines companies in Europe in customer satisfaction, retention and image.

The TRI*M index is used as a KPI (Key Performance Indicator) by companies all over the world. It is carried out by the NFO AISA research agency and is independent. The index enables comparison with other companies as well as an overview of company's own development. The TRI*M index is a reflection of how customers perceive the company, its products and services.



Customer retention development – households

The current rise in customer satisfaction marks a significant leap and the outcome of major changes in our company. It is also satisfying for us to know that this survey has reflected our active approach to the individual needs of all our customers and that they positively react to our efforts to retain their satisfaction and loyalty.



Customer retention development – business

We were awarded the ISO certificate

At the decision of top management, last year we applied to have our company certified in line with the ISO standards. When taking this decision we took into account the preference of customers for service quality over certain other characteristics and so defined it as a significant competitive advantage in the ever growing competition war.

Certification was restricted to just one area, namely the provision of data services to key and large customers in the business sector and in public administration. Representatives of RW TÜV Systems GmbH certification company officially awarded the ISO 9001/2000 certificate to us in December 2004.

Network Management Centre and Key Customer Service Management Centre

The Network Management Competence Centre which enables the monitoring and management of all communication networks 24 hours a day can now welcome customers in attractive premises of the renovated Network Management Centre (NMC). In these refurbished representative premises it will be easier for us to convince customers who care about the availability of their networks and services that their networks are in the hands of professionals.

The reconstruction took 3 months (October – December 2004) with the relocation to the new premises starting at the end of December, so that the NMC could work in its new guise from 2005. Creating representative premises was an essential factor for presentation to our customers and also for a proper work environment for the NMC colleagues. The layout of the centre best suits their communication and creates conditions for the demanding 24-hour operation. The NMC workplace will also serve for visits by key customers, who will be able to watch in real time the functioning of their corporate networks that are managed by our specialists.

The NMC reconstruction project also included the creation of a new workplace for the Key Customers Service Management Centre, which is situated near one of the NMC halls. It serves as an enquiry and single-contact point for our largest customers. The Centre provides the following:

- A non-stop fault reporting service for key and wholesale customers for all offered products on a single service number.
- Active dispatching and pro-active fault management.
- Direct co-ordination with all ST units and partner organisations participating in the service provision process.
- Monitoring of traffic and management of customer networks.
- Ensuring compliance with committed Quality & Service parameters (based on Service Level Agreements).

Appreciating our loyal customers

Introduction of loyalty programme in April 2004 meant a step towards achieving greater loyalty on the part of our customers. "Max club" brings maximum benefits to our customers. Every loyalty club member receives a multipurpose max card which he/she can use to make payments, telephone calls, to get discounts at ST's sales points or at various partner companies. Our partner for issuing max cards is HVB Bank Slovakia, which means our max club members gain a benefit in the form of a credit card.

Improved quality of sales channels

In 2004 we provided our services through several sales channels, namely: ST Points of Sale with specialised approach to small and medium sized enterprises, call centres and indirect sales – agencies, authorised partners and brand shops. Our key customers enjoyed the individual care provided by our Account Managers and Key Account Managers.

In 2004 we completed full redesign of the network of 38 Points of Sale with the aim to create a unified, characteristic, notable and clearly identifiable image of Points of Sale, of course, with emphasis on the customers' convenience. The right investment and high-quality of architectural design was proven by a nomination to "CEZAR 2004" architecture award in the interior category awarded each year by the Association of Architects to the best architectural design.

Moreover, the attractive design of Points of Sale was supported by redesign of all sales processes. The new sales concept is characterised by a strong focus on individual customer target groups and emphasis on the professionalism of salespeople and sales systems.

We carried out the pilot operation of brand shops (shops of authorised partners) within indirect sales with revenues far exceeding our expectations. Through indirect sales we made more than 120,000 changes to optional calling plans.

In 2004 work also culminated on activities concerning the preparation of a system for the launch of e-commerce based on a new modern application of a European security standard at the level of bank applications. In future we will offer our customers another way to our products and services which they will be able to order conveniently via the Internet.

Another sales channel was created by a dynamic transformation of Customer Services Centres (CSC) from enquiry centres to active sales channel in 2004. Customers no longer need to go anywhere. All that's required is to call our well known toll-free numbers and order any product or service on offer. They will also receive information about all products and services on 0800 123 456 (households) and 0800 123 500 (companies and organisations). Proof that our customers appreciated this convenient way of shopping can be seen by the rising trend of incoming calls and also by the sales results of telephone sales – the number of inbound calls increased by 25% over 2003.

In 2004 we introduced new Directory Enquiry and Operator-assisted services, which are available 24 hours a day, 365 days a year. These include the possibility of getting information about telephone numbers, addresses, web sites or e-mail addresses of your friends or business partners in Slovakia (1181) or abroad (12 149), sending an unlimited quantity of information by e-mail or fax and also call completion and reverse search options.

A completely new service came in the shape of the Info Asistent service, which is available 24 hours a day on 12 111. It provides information for everyday life such as cinema and theatre programmes, concerts, job offers, bus and train timetables, accommodation, rent, the purchase and lease of real estate and information from many other areas that we are constantly adding to this service.

Products and services

Voice revenues combined with supplementary services and customer premises equipment sales and leases represented more than 70% of the total revenues in 2004. Revenues from data services accounted for some 12% and internet services

(ST DSL, ST Online DSL, dial-up internet) for 2% of the total revenues respectively. Rádiokomunikácie branch reached almost 5% of the total revenues and revenues from interconnection fees (Carrier services) amounted to 9% of the total revenues.

Voice services

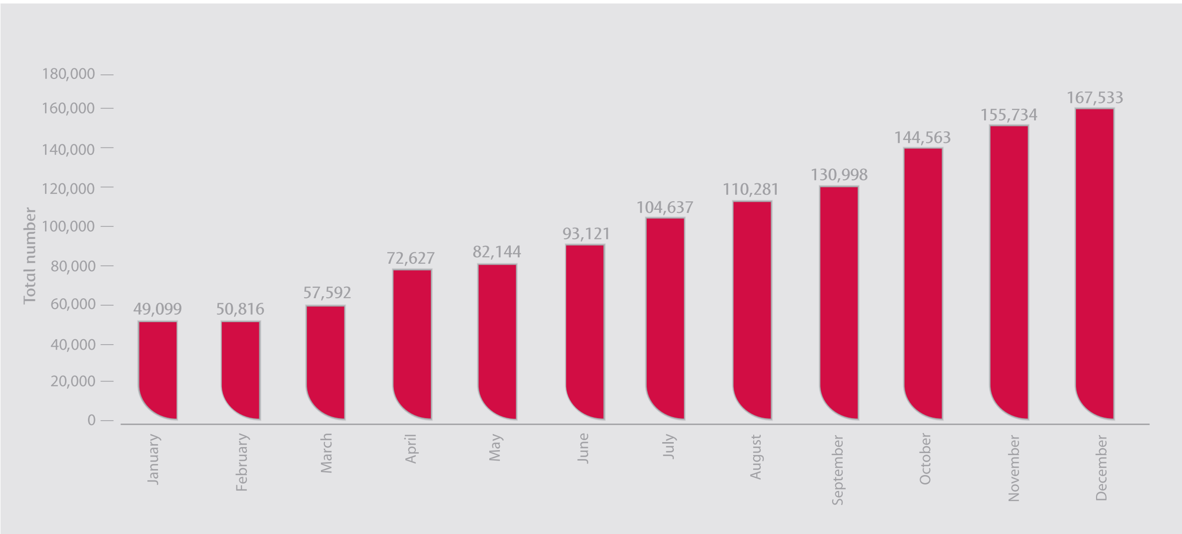
In accordance with the new brand promise – "Solutions for better life", we introduced various new products also in the field of voice services. One of the innovations was the introduction of "free days" in the ST Maxi plan (as the first telecommunications provider in the Slovak Republic), which means customers can call free of charge without limitation. This solution was applied also to new calling plans launched in July 2004 – ST Pohoda and ST Extra. Thanks to them, customers were able to make advantageous calls in the evenings and at weekends. A special element of the ST Pohoda calling plan was the price of SKK 1 for calls shorter than 30 minutes and free calls on Sundays and holidays.

The ST Extra calling plan brought a completely new level of quality to communication, as the customer paid nothing for calls made within our network during off-peak times, weekends and holidays.

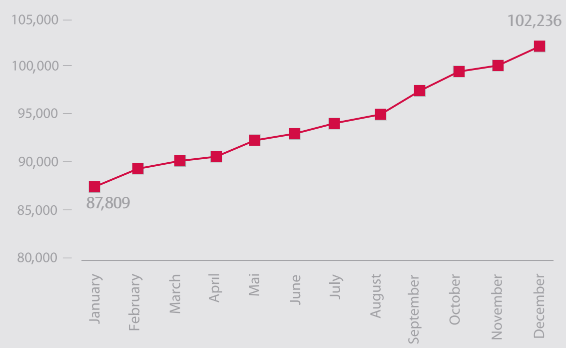
Internet services

Our company is the most successful internet service provider in the Slovak Republic offering both narrowband and broadband access to the internet. In the course of last year, we brought to the market various attractive products and services with an aim to make internet more affordable to Slovak households.

In August 2004, we introduced a new Family Internet service to the Slovak market. It is designed for customers connecting to the internet through a traditional telephone line. Family Internet became our strong card, generating almost historic success in sales – within five-months time the product won as many as 26,000 customers.



Optional calling plans development



Development of Dial-up ST Online customers in residential segment 2004

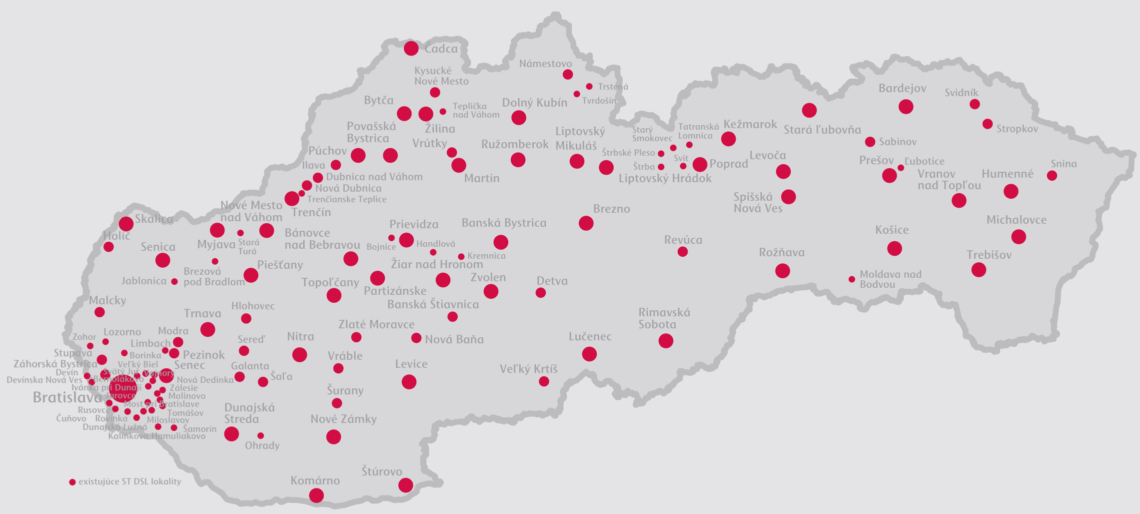
As at 31 December 2004 over 102,000 customers were using the internet connection through ST Online. Our share on the dial-up market in terms of traffic volume reached 60%.

Last year saw a boom in the use of ADSL technology-based high-speed internet.

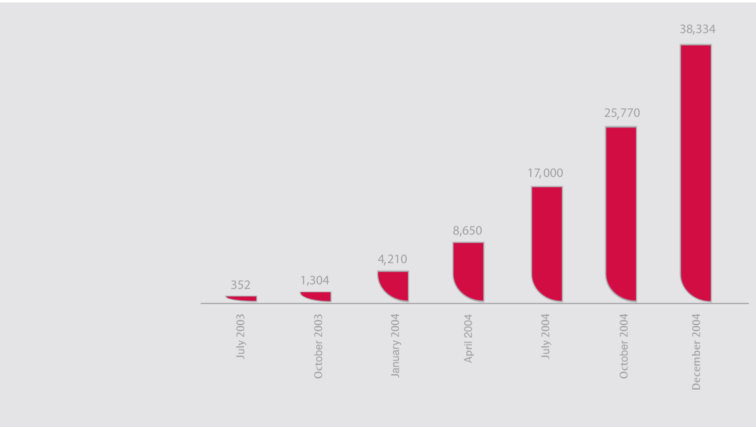
At the end of 2004, the service of high-speed internet was available in 119 towns and municipalities throughout Slovakia. ST DSL was not only made available to new locations in 2004, but we also improved the penetration of the formerly covered areas, thus allowing as many as 2.9 million Slovaks to take advantage of high-speed internet access.

Whereas at the beginning of 2004 we had 4,210 customers, by 31 December 2004 number of customers subscribing to ST DSL reached 38,334.

The interest in the high-speed internet increased particularly thanks to the new, affordable ST DSL doma plan, which is designed for residential customers and which was introduced to the market at the beginning of May 2004. The speed increases of ST DSL 384 to ST DSL 512 and ST DSL 768 to ST DSL 1024 in April 2004 also met with positive responses. Moreover, campaigns of



Map of the DSL coverage



Development of ST DSL customers

advantageous service installation ran throughout the year. The share of ST Online DSL as an internet provider in the DSL internet market represented almost 67% at the end of the year.

Our solutions for corporate customers

We brought telecommunication solutions to corporate customers, which improve the efficiency of their calls and bring global solutions to their communication needs at the same time. A new feature for the Business Partner calling plans (BP, BP 60, BP 300) was the cancellation of the committed payment. The customer was thus not limited by the minimum amount they had to spend within three months. This also eliminated the risk of the compensation supplementary payment. By cancelling the 6 months' subscription period, we enabled our customers to make use of all advantages of the plan. Corporate customers were provided with a discount on internal calls, which applies to all calls between lines included in a single Business Partner calling plan, whereby the customer gained the advantages of a private virtual network.

Data Virtual Private Networks

The portfolio of data products was restructured in 2004 to enable the more flexible creation of comprehensive customer solutions. The restructuring helped to accelerate the growth rate of data revenues, which saw more than 16% increase. The growth of data revenues on the Slovak market in the same period represented 10% on average.

One of the most significant innovations in the data virtual private networks (VPN) in 2004 was the Business Net product which allows implementation of VPNs on three different platforms – ATM (Asynchronous Transfer Mode), Frame Relay and NGN (Next Generation Network).

Another innovation was the Transaction Net Fix product which focuses on a new area of service provision, namely the interconnection of ATM (Automated Teller Machine) equipment and payment terminals requiring permanent communication for individual banks and authorisation centres. Moreover, we introduced the possibility of access to MPLS VPN through ADSL.

Wholesale/Carrier services

In 2004 we continued offering wholesale services to other operators and internet service providers. One of the most important offers is the Carrier Link service. It ensures the collection of data traffic from end users to networks (Points of Presence) of other operators via access links.

In accordance with our aim to further promote internet services we prepared additional special offer – ISP DialUp Plus, enabling other internet service providers to directly collect internet traffic from their users and charge them with their prices using the "Reverse Charging" principle. Voice Plus, another wholesale offer, allows other operators to legitimately collect "Voice over IP (VoIP)" traffic in Slovakia.

Cross-border co-operation

The year 2004 proved to be a significant milestone in the co-operation of our company and T-Systems International, the information technology and telecommunications service provider that serves major customers of Deutsche Telekom AG on world-wide basis. At the end of May the Contract on Synergy was signed by representatives of both companies. The contract forms the basis for the co-operation in providing international network services to customers in Slovakia. The agreement marks a deepening of the relationship with regard to network usage and international voice termination.

Thanks to co-operation in the area of network usage, we became a part of Deutsche Telekom's worldwide "Telekom Global Network", which connects our national network to all parts of the world. The network co-operation created the technological basis also for offering competitive international data services. The agreement means we can provide our business customers with international services even faster, enabling them to connect to other affiliates or partners throughout the world.

Our successes in tenders

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 2004 we participated in 33 public tenders, succeeding in 19 of them. This success ratio underlines our ability to offer top-quality services and solutions to various clients.

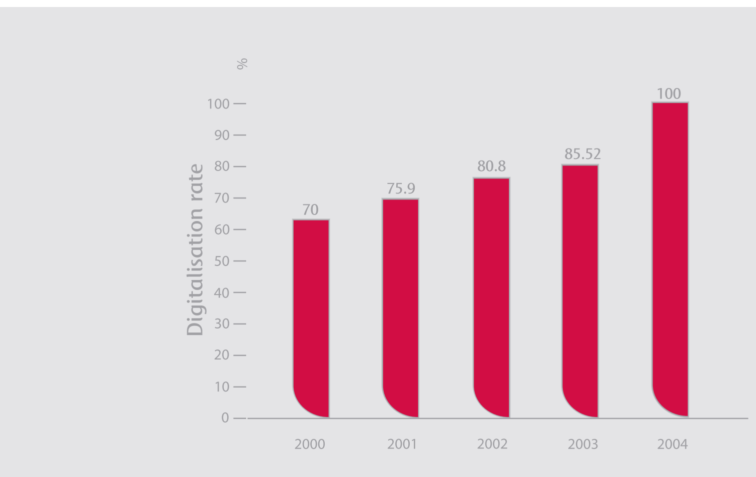
Innovations in our business

In 2004 we applied a new business plan of ST – the provision of commercial call centre (CCC) services for third parties. The commercial offer of call centre services followed a pilot operation in the period from April to December 2004 and the first centre was built in Prešov. Existing CCC customers include HVB Bank Slovakia, the Ministry of Labour, Social Affairs and Family of the Slovak Republic and Železničná spoločnosť, a. s. (Railway Company). The commercial call centre has offered its services also to Tatra banka and VÚB bank.

Completion of network digitalisation

Completing digitalisation by the end of 2004 arose from the privatisation obligation and laid the cornerstones for offering modern telecommunication services to all customers. By the end of 2003 the digitalisation rate was 85.52%. We have invested approximately EUR 85 million to complete the network digitalisation, of which investments into the NGN technology have been EUR 20 million.

The process of digitalisation of our networks culminated in December 2004 when the last analogue users were switched to the NGN technology (Next Generation Network). The migration of 152,000 customers at 310 sites was carried out in less than six months, making it a unique success on the global telecommunication market, especially considering the scope of tasks related to the digitalisation. At the same time we became the first company in the Deutsche Telekom Group to introduce NGN and so create space for the gradual renewal of network infrastructure elements by utilising this innovative and modern platform. Thanks to the completion of digitalisation using NGN we became the largest IP NGN network operator in the world in the group of telecommunication incumbents. The fully digitised network allows for the implementation of call-by-call carrier selection and carrier pre-selection or number portability.



Development of digitalisation of the ST public telecomunications network

Creative and efficient communication

Marketing communication

At the beginning of 2004 we successfully completed preparations for a change of corporate identity and introduced the new logo, slogan and brand values to our customers and to the general public. In 2004 we received several awards, such as the Best Brand in Slovakia in the Internet Providers category, the bronze EFFIE award in the efficiency class, the Strieborný klinec (Silver Nail) award in the creativity class and the results of regular surveys showed that our new communication strategy was among the most successful in Slovakia. Advertising campaigns and projects carried out under the new design with an emphasis on the brand promise of "Solutions for a better life" greatly contributed to strengthening the new brand image and also to supporting voice services products, and internet and data solutions.

During 2004 we communicated the benefits of using our products and services to potential and existing customers alike by means of several attractive campaigns ("I love Sunday", "Win with a fixed line", "International calls from a fixed line"). The "Super benefits package" campaign met with great response. The offer was truly a broad one: installation for just SKK 1, free local calls for 12 months, free Family Internet for 3 months and a cordless telephone set at the excellent price of SKK 699 (excl. VAT). Customers could choose any of the benefits on offer and create their own package of super benefits. In the course of the 3-month campaign (October – December 2004) almost 16,500 customers ordered a fixed line with the Super benefits package.

Efficient marketing communication includes also sports sponsorship. Since 2002 we have acted as a general sponsor of the top Slovak ice-hockey competition. In addition to funding for ST Extraliga clubs, we also organise various accompanying projects. In the 2004/2005 season a competition in support of young talent was started, culminating in the announcement of "Newcomer of the Year" for the best under-20 player in the ST Extraliga. In the 2004/05 school year we continued in organising a hockey ball tournament called the STreet hockey school league for 13-14 year-olds. Our aim was to provide primary school pupils with an easy free-time activity similar to ice-hockey. As many as 364 school hockey ball teams took part in the second year of the STreet hockey league.

Corporate communication

The substantial interest of national and regional media in events on the telecommunications market and in our company resulted in the generation of 4,551 media outputs last year, i.e. 31% more than in 2003. The qualitative evaluation of publicity shifted considerably towards a positive or rather an objective appraisal. The media paid attention primarily to topics related to the field of market liberalisation, our parent company, the eSlovakia initiative, the PCs for Schools project and the range of products on offer.

Proof of our efficient communication came with the top award in the intranet category of the competition Corporate Medium of the Year 2003 (Podnikové médium roka 2003), 1st place in the competition Annual Report 2003 – both in the print and electronic categories, and 3rd place in the competition Corporate Medium of the Year 2003 – websites category.

Our direction in 2005

Broadband internet will be an accelerator for the whole internet business in Slovakia, which besides fast access will also provide customers with attractive content. The position of content provider will therefore be a key area for our future development on the broadband market. We plan to make the ST DSL service available in 350 new locations in 2005 and expect to have as many as 90,000 ST DSL subscribers by the end of 2005.

Deployment of the world leading-edge technology NGN gives us advantages in the integration of voice, data and IP services, and prepares us for the introduction of completely new services (e.g. triple play – voice, video, internet; Voice over IP).

Other goals for 2005 in the product and services area include the successful introduction of the Virtual Voice Net product to our customers. This product will ensure the convergence of efficient customer voice and data solutions in the IP environment. We will also continue innovating the MPLS VPN product, especially in terms of access to the virtual private network (e.g. through dial-up, GPRS/EDGE etc.). Last but not least, we plan to develop and introduce managed LAN (Local Area Network) product and security solutions. With this product we aim to close the technological chain of providing comprehensive customer solutions.


TUUK

We change to make progress.
We progress because we are not afraid of change.

The success of 2004 was achieved in particular through the efforts, persistence and professional work of our employees. It was evident that the new approach applied for the transformation of our company is the best possible means of developing into a Next Generation Operator who is able to meet customer demands, is capable of introducing innovative solutions and advanced services to the marketplace, provide best working environment conditions for our employees and to satisfy the goals set by our shareholders.

Transformation – eNGine that drives us forward

The transformation process that intensified over the last year has been implemented with the aim of defining our strategic direction in terms of services, technologies, processes and workflow organisation. It also determined the manner of implementing the strategy in order to achieve our objectives.

In 2004, we defined and deployed transformation tools and kicked off projects in three key areas: Top line growth (focused on customer and market development), Innovation and growth (focused on network improvement) and Company performance improvement (focused on services, networks and support activities). In just six months we have generated optimistic results as part of the Customer Base Stabilisation project. Above all the results concerned the migration of customers to optional calling plans, stabilisation of the churning and influx of new customers. The basic tools of transformation included transformation projects, a company-wide continuous improvement system, automation, process changes, all supported by intensive discussions and communication within the company.

It has become obvious that a changed approach used in the transformation of our company is the only possible means of developing into a so-called Next Generation Operator that is able to meet ever changing customer demands, and to introduce innovative solutions and advanced services on one hand, and satisfy the goals defined by our shareholders on the other.

Process changes – streamlining and more efficiency

As part of the transformation, we kept increasing our company's readiness to do business successfully in a new environment and changed the way our company functioned, making it a process-managed enterprise of a European standard. We focused on processes that had an impact on the provision of products or services to our customers. All other activities were subordinated to that. We introduced innovative technologies, increased flexibility through changes in the organisational structure, provided more information, and increased the involvement and development of employees. The first step in 2004 was the kick-off of a process improvement pilot project. In this project we tested a systematic approach to process improvements, which will be applied to all core customer processes in 2005.

Information technologies for greater customer satisfaction

The major drivers of IT unit key activities were on one hand the company-wide transformation project and on the other hand we did utilize the foundations which were build in previous years, allowing us to focus and to succeed in our efforts. The key areas of our focus in 2004 were top-line growth, customer excellence, performance improvement and Deutsche Telekom AG regional affiliates synergy projects.

In order to meet our ambitious company goals (in an environment of headcount reduction and tight financial discipline) IT implemented new IT delivery process management in order to improve time, quality and costs of our internal service delivery. The standard and quality of IT operations have improved considerably by finalisation and modernisation of our data centre facilities to a world-class level. This created the prerequisite for successful implementation of new IT projects in areas of product development, marketing and sales, customer care, billing process, network management, corporate security, human resources and operational support.

The Service Provisioning and Assurance project (Phase I and II) and Business Intelligence projects were the most significant efforts to improve the standard of service provision to our customers. These projects delivered sophisticated support tools to our colleagues working in direct contact with our customers in the sales and provisioning processes. In 2004 our nationwide service provisioning systems were automated and we also extended their functionalities and added more new service capabilities. These systems changes brought along greater transparency and automation of customer communication and service provisioning processes, thus leading to an overall improvement of service quality and shorter service provisioning times based on IT solutions. Our integration effort was the result of a close co-operation between IT and customer care and sales and network infrastructure.

All IT activities are currently provided on the basis of Service Level Agreements (SLA), which we consider a key tool for internal monitoring of the efficiency, performance and quality of IT services and customer satisfaction.

In 2004 we started few critical regulatory and compliance projects. On T-Com compliance level we addressed Sarbanes-Oxley Act and Group IT security issues and on corporate level IT was addressing areas regulated by the Telecommunications Office and Slovak legislation.

Since 2002 we are an active member of the Deutsche Telekom AG Group's regional affiliate co-operation effort, the regional T-Com CIO Group. This effort is led by CIO T-Com and members are individual CIOs of MATAV, Hrvatski Telecom, Makedonski Telecom and Slovak Telecom. This co-operation is aiming at finding and exploiting of existing synergies and re-using of know-how among the Group members. The CIO Group leads three major efforts, IT architecture (infrastructure standards), streamlining of IT operations (efficiency) and finally the Centre of Excellence (CoE) project.

We are the Group leader in IT operations streamlining project. Our operational benchmarks are best market practice and our innovative archiving solution has been chosen as a Group standard. We lead the standardisation of the IT services Product catalogue, IT cost model and the unification of IT operating processes. Our archiving solution is in full compliance with EU standards concerning long-term data storage.

The Centre of Excellence project is a regional IT solution centre, where the individual CoE develops a concrete IT solution and builds a capability for multiple deployments among Group members. We are a Group leader in the Centre of Excellence for Billing and Customer Care. The focus of our CoE is on the development and provision of Telecom-IT specific solutions for billing and customer care to all T-Com regional Group members on commercial basis.

Our IT started to position itself as an IT solution and service provider not only to the T-Com Group but also as a production platform to third parties.

We regard the ongoing creation of IT architecture as our obligation. As part of this process, we are looking for internal instruments to increase IT efficiency and the quality of functioning. New IT systems designed for monitoring and managing network technologies and processes will let us supervise, analyse and manage our company's performance. Our aim is to adjust all systems to customers' needs. We are building systems that will secure a high level of automation of service provisioning and enable the management of the service levels of customer solutions.

Without our people it just wouldn't work

The successes we have achieved reflect the commitment, persistence and motivation of our employees. It is thanks to its employees that Slovak Telecom has succeeded in keeping its position as one of the largest and most attractive employers in Slovakia.

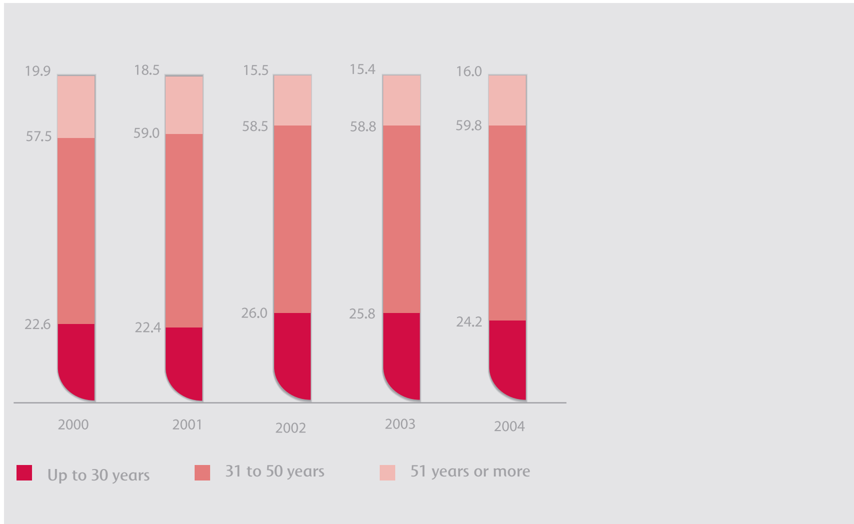
The company's transformation is not only about new technologies and the service portfolio; it is also about a change of employee structure. Human resources potential is at the centre of our attention throughout the transformation period. We need to prepare our colleagues for new challenges and working conditions, to maintain and increase the level of their motivation and loyalty to the company. The implementation of our customer-centric corporate values is continuing.

Our aim is to increase efficiency within the company; we are changing our approaches to the remuneration and motivation of employees. We have prepared changes in the setting and appraisal of goals at all management levels. Primary emphasis is put on communication with employees and managers alike. Managers are supported by their own internal professional consultants who assist them in the recruitment, selection, training, development as well as in identification of key employees. Various diagnostic and development programmes are used to help managers choose the best colleagues and create teams that are prosperous over the long term. The teambuilding method is frequently used to strengthen team co-operation, and it increases the productivity of teams and individual team members.

Employee structure

Slovak Telecom employed 6,069 employees as at 31 December 2004, including the Rádiokomunikácie branch. More than a third of employees have a university education, with more than half of employees having completed secondary school with school-leaving exam. Employees aged 31 to 50 years represent the strongest age group; the average age in the company is 39 years. The percentage of women in the company is rising gradually, reaching the level of around 40%.

The influx of new and highly-qualified staff is also reflected in the employee structure based on the number of years worked, with 22% of employees having been employed with the company for less than 5 years and a large group of employees having spent 5 to 15 years with the company (20%). The stated figures clearly prove that we have preserved a prominent position among attractive employers on the Slovak market and that our employee retention and loyalty programmes produce good results.

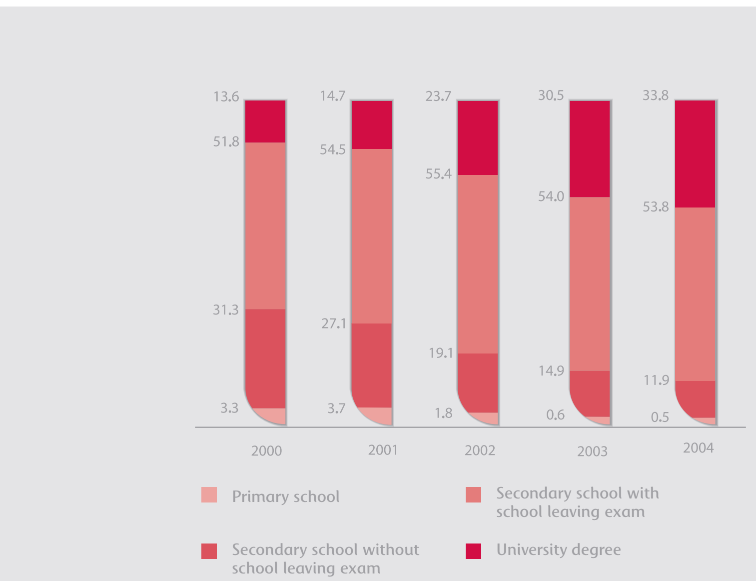


Employee age structure

HR and the transformation process

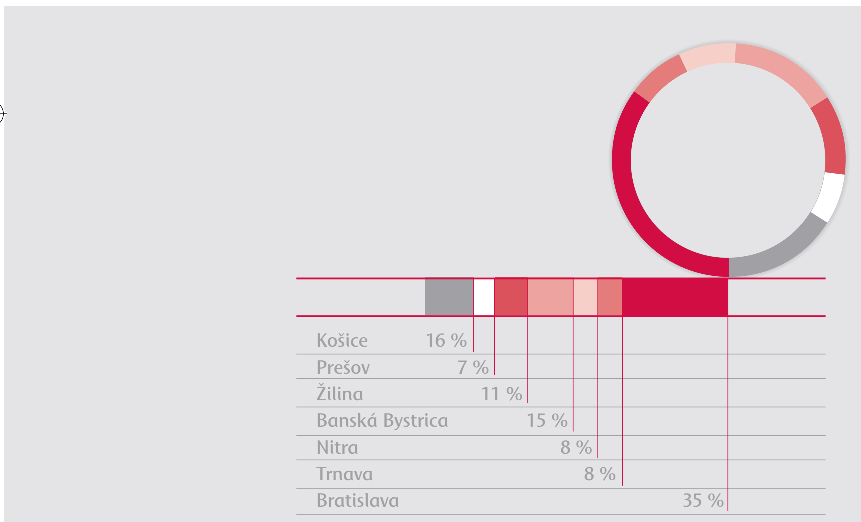
The company's restructuring means a change to the structure and manner of activities performed and so an associated change to the structure and quality of job positions. Vacancies are staffed through selection procedures. Up to 800 positions were staffed via selection procedures in 2004. Our aim is to support the career and development of employees also through new professional challenges. In 65% of cases positions were successfully staffed from internal resources, in 35% of cases people with specific education and experience had to be sought in the external labour market.

Our company has behaved responsibly towards its employees during the transformation process, this being proven by the fact that in 2004 we intensified the transformation project that focused on our employees. The employee support pillar is a part of this transformation project.



Employee structure by education level

Its task is to help our employees cope with the transformation process. Managers were trained to lead exit interviews. The employees who were dismissed due to organisational changes were provided with support when leaving the company. In addition to other retraining courses, the "Starting my own business" training programme was prepared for these employees. We have prepared two "ST Outplacement" projects for which we have applied for funds from the European Social Fund.



Regional distribution of employees

Investments into employee education

The enhancement of knowledge of new technologies and development of personal and managerial skills were at the centre of our attention in 2004. The transformation process requires high-quality and trained people, managers capable of efficient functioning in a European-level company. Almost SKK 50 million was invested in education last year. We prepared 2,394 training sessions, whereby the average number of training days per employee exceeded 6 days per year.

As a result of the company transformation and the growing need for project management, 196 employees underwent training in this area. As many as 223 employees learned about project management tools in training, and 22 of them received a project manager certificate.

Remuneration and employee benefits

The company endeavours to base the remuneration system of its employees on internal fairness and transparency. The principle of appraising job positions depending on the extent of their influence on the overall functioning of the company has been applied for several years now. Each year, Slovak Telecom participates in wage surveys with the aim of creating a competitive remuneration system, both in terms of financial remuneration and employee benefits. The system of flexible benefits has proven good in this regard. Our employees can choose the benefits they prefer from a wide selection, including health care, recreation, cultural activities, contributions to supplementary pension insurance, and discounts on services of our contracting partners. There are also luncheon voucher contributions of course.

Safety at work

We pay great attention to safety and health at work, and to increasing the quality of working conditions for employees. In 2004 a strong focus was placed on the safety of altitude work in particular. Employees who need protective working garments for the work they carry out were equipped with personal protective garments of a new quality, design and new corporate colours.

Fulfilling obligations

We paid almost SKK 500 million to funds and insurance companies in 2004. Health insurance companies received another SKK 190 million or so. We demonstrated our responsibility also in relations with social partners. The new conditions of the Collective Labour Agreement (CLA) regarding wages, employee benefits and severance payments, were agreed upon with the trade unions. Conclusion of the amendments to the CLA helped preserve good and fair relations.

Strategic direction for 2005

We want to use our transformation to change to a customer-oriented next generation operator. The basic priority of the transformation programme is to align all efforts, activities and procedures in order to satisfy customers' needs. Through stabilising our customer base, we want to increase the market share, raise profitability and customer satisfaction and so strengthen our position on the market. We intend to continue increasing the efficiency and quality of our employee structure and also the motivation of employees to deliver top performance.

When we enjoy helping, we help the most.

We not only affect life in Slovakia through our business activities, but also contribute to improving the living standard of the population. Thanks to activities in the field of corporate social responsibility (CSR) we have positioned ourselves as a model corporate citizen of Slovakia. In 2004 we offered help to people in need, we implemented unique projects regarding the building up of an information society and we supported cultural and social events at a European level, as well as selected professional conferences.

Inspired by the sponsorship strategy and philanthropy of Deutsche Telekom AG – our majority shareholder, in 2004 we focused our activities on 4 pillars.

As a corporate citizen Slovak Telecom improves the quality of life

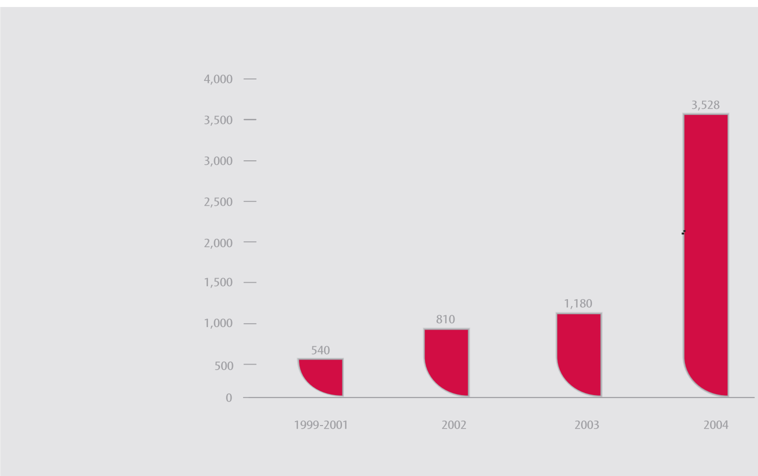
In 2004 we continued with the Linky života project ("Nezábudka" Help Line 0850 11 01 22 and Emergency Line 0850 11 13 13) – non-stop advice lines for people with psychological and physical problems, people in life-threatening situations or involved in a car accident. With Slovakia's accession to the European Union we set up and funded the Euroline 0800 103 104 number, through which people were able to obtain information about all aspects of life in the European community and about the impact of our country's EU membership on everyday life. We supported the activities of national non-profit organisations, namely the Foundation for Children of Slovakia (An hour for children – "Hodina deťom"), Association of Friends of Children's homes (The gift of a smile – "Úsmev ako dar") and UNICEF. In cooperation with the renowned People in Peril Association we have agreed to contribute to the reconstruction of specific infrastructure in areas affected by the Tsunami by providing necessary funds and materials. In November 2004 after a windstorm swept through the High Tatra mountains, we set up the 0890 411 411 telephone line. In the period of a month each of the 15,535 callers contributed SKK 20 excluding VAT to the fund-raising for the State Forests of the Tatra National Park for the restoration of woods in the National Park. In addition, we also contributed SKK 1 million to the restoration of the devastated area.

Slovak Telecom – a leader in the establishment of an information society

In 2002 we initiated the eSlovakia programme aimed at accelerating the informatisation of our society. Last year, as part of the eSlovakia programme we implemented the unique PCs for Schools project in a record-breaking 6 months. Thanks to the donation of SKK 1 billion from Deutsche Telekom AG, each of the 3,500 plus elementary and secondary schools in Slovakia were equipped with a new PC classroom. The whole project was coordinated by Slovak Telecom. As at 31 December 2004 we had also connected 92% of all schools to the internet, while applying the most advanced technologies. At the end of 2004 more than 1,000 schools made use of a broadband connection to the internet. Other schools were connected through ISDN technology, digital leased lines and Frame Relay. As many as 22,026 computers with the latest software, 3,671 printers and other peripherals were given to schools as part of the project.

Approximately 1,101 km of cables were used for installation work. The schools were also granted a free-of-charge warranty service and a Technical Support Centre for 4 years. Thanks to the project, the number of pupils per computer was cut from around 120 to 30 pupils per PC. Slovakia thus succeeded in moving closer to the parameters of school system informatisation in developed European countries.

We have learned that the new classrooms are not only used by students and teachers, but also by citizens who were given new opportunities for communication and further education in community projects. The PCs for Schools project became the greatest activity ever in the field of informatisation of Slovak elementary and secondary schools.



Informatisation of Slovak primary and secondary schools

As part of the eSlovakia programme we also supported Summer schools – activities of the Infovek project association focused on educating teachers. Last year Summer schools brought new content of a universal course for teachers with the aim of helping teachers acquire PC skills and make use of them in the teaching process. In the next 2 years this course will be attended by all teachers in Slovakia.

We also provided funds to support educational activities in selected workplaces of the following universities – Slovak University of Technology in Bratislava, University of Žilina and Technical University of Košice.

Slovak Telecom – a patron of art

Last year we formed a partnership with the International Film Festival. We financially supported the creation of an original and exclusive Slovak documentary film – Amazonia Vertical, and the film Last Station. For the third time we became a partner of the prestigious "Czech Theatre" festival in Slovakia. Thanks to our contribution to the original Slovak stage production the viewers had a chance to see the theatre play – "A Goat or Who Is Sylvia?" at the Aréna Theatre in Bratislava and the musical "Cabaret" at the Theatre of Andrej Bagar in Nitra.

Slovak Telecom – a knowledge leader

We supported selected professional conferences in the field of information and communication where our representatives had the opportunity of talking to experts both from the national and international telecommunications business. Our experts also actively participated in conferences on human resources, marketing and corporate and marketing communication.

Our help was appreciated

In 2004 we earned the Via Bona award of the PONTIS international foundation for the Linky života project. We were also honoured for its long-term cooperation with the Association of

Friends of Children's Homes. We contributed to the launch of the European campaign of the "Seeing is Believing" corporate social responsibility programme. The programme has been running for 12 years under the supervision of His Royal Highness Prince Charles. Our CEO was invited, as the only representative of Central and Eastern European countries, to the meeting of representatives of the most important European companies with His Royal Highness Prince Charles at St. James's Palace in London.

In 2004 we became a founding member of the Business Leaders Forum – an informal association of companies which is the leader in promoting awareness of corporate social responsibility in Slovakia.

Slovak Telecom and the environment

Since 1996 we have been an active member of ETNO (European Telecommunications Network Operators Association at the EU). We observe the commitments of ETNO's Sustainability Charter, which defined the standards of corporate environmental and social responsibility. We are one of the European companies that sees its corporate social responsibility in the context of sustainable development. Last year our activities were focused mainly on reducing emissions released to the atmosphere, preventive protection of ground and surface waters, reducing pollution of released waste waters, reducing waste production from individual activities and increasing the level of waste recycling. We also implemented measures aimed at reducing potential risks of industrial accidents and we created a modern system of waste management.

Plans for the future

We plan to actively influence further development of corporate social responsibility of Slovak companies and to increase the awareness of the public on the need and importance of philanthropic activities. Our aim is to encourage the launch of different community activities with the active involvement of its employees. We will continue to support activities and projects in the field of education, informatisation of society and in supporting valuable cultural projects and so improve the quality of life of all citizens.

Contents

General information

These consolidated financial statements have been prepared for Slovak Telecom, a.s. ("the Company" or "Slovak Telecom") and its subsidiaries RK Tower, s.r.o., RK Transmission, s.r.o., Slovak Wireless Finance Company B.V. and EuroTel Bratislava, a.s. ("EuroTel"), together "the Group".

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 through the acquisition of 51% of the shares of Slovak Telecom. The transaction involved the purchase of existing shares from the Slovak Government and the issuance of new shares. The Slovak Government retained 49% of the shares of 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 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 subsidiary EuroTel, it operates an analogue technology NMT 450 mobile telephony network and a GSM standard technology 900 MHz and 1,800 MHz frequency bands mobile telephony network. The Group is also the owner and operator of radio and television transmission equipment.

Staff numbers	2004	2003
Number of employees at period end	7,591	7,375
of which EuroTel:	1,311	-

Reporting currency

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

Registered address

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

Consolidated Income Statement at 31 December

(All amounts are in millions of Slovak crowns)

	Notes	2004	2003
Revenue	3	16,844	17,776
Operating costs	4	(15,651)	(15,149)
Profit from operations		1,193	2,627
Share of profit of joint venture	1	1,177	719
Financial income, net	5	218	287
Profit before tax		2,588	3,633
Taxation	6	(281)	116
Net profit		2,307	3,749

The consolidated financial statements on pages 47 to 74 were authorised for issue on behalf of the Board of Directors on 21 February 2005 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 Peter Montagne von Lillienskiold
Chief Financial Officer
and Member of the Board of Directors

The notes on pages 51 to 74 from an integral part of these consolidated financial statements.

Consolidated Balance Sheet 31 December

(All amounts are in millions of Slovak crowns)

	Notes	2004	2003
ASSETS			
Non-current-assets			
Property, plan and equipment	7	47,210	40,620
Intangible assets	8	19,853	1,427
Investment in joint venture	1	-	2,612
Deferred expenses and other non-current assets		463	268
Total non-current assets		67,526	44,927
Current assets			
Inventories	9	423	262
Assets held for sale	10	313	465
Investments	11	-	44
Receivables and prepayments	12	3,592	2,680
Income tax		444	40
Cash and cash equivalents	13	5,662	15,685
Total current assets		10,434	19,176
Total assets		77,960	64,103
EQUITY AND LIABILITIES			
Share capital and reserves			
Share capital	14	26,028	26,028
Share premium	14	11,632	11,632
Statutory reserve fund	14	1,183	839
Retained earnings	14	12,003	10,040
Other reserves	14	4 873	-
Total share capital and reserves		55,719	48,539
Non-current liabilities			
Borrowings	15	7,324	4,392
Deferred tax	16	5,859	3,306
Other payables and deferred income	17	881	790
Provisions	18	144	15
Total non-current liabilities		14,208	8,503
Current liabilities			
Trade and other payables and deferred income	17	6,664	6,100
Borrowings	15	775	740
Provisions	18	594	221
Total current liabilities		8,033	7,061
Total liabilities		22,241	15,564
Total equity and liabilities		77,960	64,103

The notes on pages 51 to 74 from 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	Other reserves	Total Equity
Year ended 31 December 2003							
At 1 January 2003		26,028	11,632	517	8,669	-	46,846
Dividends		-	-	-	(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
Year ended 31 December 2004							
At 1 January 2004		26,028	11,632	839	10,040	-	48,539
Allocation to funds		-	-	344	(344)	-	-
Acquisition of subsidiary	2	-	-	-	-	4,873	4,873
Net profit for the year		-	-	-	2,307	-	2,307
At 31 December 2004		26,028	11,632	1,183	12,003	4,873	55,719

The notes on pages 51 to 74 from an integral part of these consolidated financial statements.

Consolidated Cashflow Statement at 31 December

(All amounts are in millions of Slovak crowns)

	Notes	2004	2003
Net cash flows from operating activities	19	8,037	8,670
Cash flows used in investing activities			
Acquisition of subsidiary, net of cash acquired	2	(9,369)	-
Interest received		511	655
Purchase of property, plant and equipment		(6,250)	(5,610)
Proceeds from sale of property, plant and equipment		146	133
Proceeds from non-current investment settlement		-	282
Proceeds from sale of available-for-sale investments		40	-
Net cash used in investing activities		(14,922)	(4,540)
Cash flows used in financing activities			
Repayment of loans		(653)	(664)
Payment of finance lease liabilities		-	(24)
Interest paid		(235)	(468)
Payments on derivatives		(194)	-
Dividends paid		(2,056)	-
Net cash used in financing activities		(3,138)	(1,156)
Net (decrease) increase in cash and cash equivalents		(10,023)	2,974
Cash and cash equivalents at 1 January		15,685	12,711
Cash and cash equivalents at 31 December		5,662	15,685

The notes on pages 51 to 74 from an integral part of these consolidated financial statements.

Notes to the 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 and its subsidiary undertakings. The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale financial assets that have been measured at fair value.

(b) Accounting for subsidiaries and joint ventures

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December each year. The financial statements of subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Subsidiaries are consolidated from the date on which control is transferred to the Group. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

EuroTel has been included in the consolidated financial statements using the purchase method of accounting that measures the acquiree's assets and liabilities at their fair value at acquisition date. As the acquisition became effective on 31 December 2004, it had no impact on the Group's results for the year. The purchase consideration has been allocated to the assets and liabilities acquired on the basis of fair values at the date of acquisition.

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 ventures' profit or loss for the year. The Group's interest in such entities 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 entities are eliminated to the extent of the Group's interest in such entities; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(c) Property, plant and equipment

(i) Cost

All property, plant and equipment, other than land, are carried at cost less accumulated depreciation. Land, which was acquired before 1991, is stated at values assigned to it by the State. 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 and direct labour.

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 the income statement as incurred.
Accounting policies (continued)

(c) Property, plant and equipment (continued)

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 the assets 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
Telephone exchanges 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 and capital work in progress.

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

Property, plant and equipment are classified as assets held for sale and stated at the lower of their carrying amount and fair value less costs to sell and reclassified from non-current to current, if their carrying amount is recovered principally through a sale transaction rather than continuing use.

(d) Intangible assets

Goodwill on acquisition is initially measured at cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Intangible assets acquired separately are capitalized at cost and from business combinations are capitalised at fair value as at the date of acquisition. The useful lives of these intangible assets are assessed to be either finite or indefinite. Intangible assets with a finite useful life are amortised using the straight-line method.

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

(d) Intangible assets (continued)

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

Customer contracts and related customer relationships	8 years
Licenses	10-20 years
Software and other intangible assets	3-5 years
Brand	5 years
Goodwill	indefinite

Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Other categories of intangible assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable.

(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 charge so as to achieve a constant rate of interest on the 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. Property, plant and equipment acquired under finance lease contracts are depreciated over the useful life of the assets.

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) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on a weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less 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. Such provision for impairment is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, that 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

For the purpose of the cash flow statement, cash and cash equivalents comprise cash in hand and short-term deposits with an original maturity of three month or less, 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 being 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.

Restructuring

Restructuring provisions include 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 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.

Asset retirement obligations

Asset retirement obligations relate to future costs associated with the retirement of non-current assets. The Group records the fair value of a liability for an asset retirement obligation in the period when it is incurred. When the liability is initially recorded, the Group capitalizes the related cost by increasing the carrying amount of the related non-current asset. Subsequently, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the estimated useful life of the related asset. Upon settlement of the liability, the Group either settles the obligation for its recorded amount or incurs a gain or loss upon settlement.

(l) Revenue recognition

Revenues are recognised upon delivery of services and products and customer acceptance thereof.

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 to which they relate. Carrier service revenues are derived from calls and other traffic that originate in mobile networks of external operators or outside Slovakia but use the Group's network.

The Group pays a proportion of call revenue collected from its customers to external mobile operators and other telecommunication companies for calls and other traffic that originate in the Group's network, but use the networks of those external companies.

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 operating activities they are included within operating costs. Where they arise on foreign currency financing activities they are included in financial income, net.

(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.

(p) Social security and pension schemes

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

(q) Comparatives

Certain comparatives have been reclassified to conform with current year presentation.

Financial risk management

(a) 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 and credit risk. 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 cross currency interest rate swaps and forward foreign exchange contracts to hedge certain exposures.

Risk management is carried out by the Treasury Departments of the Company and EuroTel under policies approved by the respective Boards of Directors of the Company and EuroTel. The Treasury Departments identify, evaluate and hedge financial risks in co-operation with the respective 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 equipment (mainly from Germany and Austria), GSM network equipment and mobile handsets, which are generally denominated in EUR. The Group uses foreign currency deposits, forward foreign exchange contracts and cross currency interest rate swaps to hedge its exposure to foreign currency risk.

(ii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk arises from long-term borrowings. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt.

(iii) Credit risk

The credit risk policy defines products, maturities of products and limits for financial counter-parties. The Group limits credit exposure to individual financial institutions. These limits are reviewed on a regular basis.

(b) Accounting for derivative financial instruments and hedging activities

Derivative financial instruments are initially recognised in the balance sheet at cost and subsequently are remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, 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 recognized asset or liability (fair value hedge) or
(ii) a hedge of a forecasted transaction or of a firm commitment (cash flow hedge).

The Group does not hold any fair value hedges or cash flow hedges at 31 December 2004 which qualify for hedge accounting under the rules of IAS 39.

Changes in fair value of derivatives that are designated and qualify as highly effective cash flow hedges are recognized in equity. Where the forecasted transaction or firm commitment results in the recognition of an asset or of a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. Otherwise, amounts deferred in equity are transferred to the income statement and classified as revenue or expense in the same periods during which the hedged firm commitment or forecasted transaction affects the income statement.

Certain derivative transactions which provide effective economic hedges under the Group's risk management policies do not qualify for hedge accounting under the rules of 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.

At the date a hedging instrument expires or is sold, or once a hedge no longer meets the criteria for hedge accounting under IAS 39, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the committed or forecasted transaction is recognized in the income statement. When a committed or forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is transferred to the income statement.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all instruments designated as hedges to specific assets and liabilities or to specific firm commitments or forecasted transactions. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of derivative instruments used are disclosed in Note 21.

(c) Fair value estimation

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

1 Investments in subsidiaries

Details of the Group's subsidiaries are given below:

Subsidiaries	Country of incorporation	Interest in capital %	Activities	Method of consolidation
RK Tower, s.r.o.	Slovak Republic	100% (2003: 100%)	Broadcasting	Full
RK Transmission, s.r.o.	Slovak Republic	100% (2003: 100%)	Broadcasting	Full
Slovak Wireless Finance Company B.V.	Netherlands	100% (2003: 53%)	Finance	Full
EuroTel Bratislava, a.s.	Slovak Republic	100% (2003: 53%)	Wireless telephony services	Full

On 19 October 2004, EuroTel's Board of Directors approved the dissolution and liquidation of Slovak Wireless Finance Company B.V. and at 31 December 2004 the subsidiary was in liquidation.

On 31 December 2004 the Company obtained full control of EuroTel, and EuroTel has been fully consolidated as of that date. Previously, control was shared with Atlantic West B.V. and hence this investment was considered a joint venture, although the Group had a 51% economic interest in the profits and net assets of the joint venture.

Movements in the value of the investment in joint venture are shown below.

	2004	2003
At 1 January	2,612	2,044
Share of profit before tax	1,177	719
Share of tax	(218)	(151)
Elimination on full consolidation	(3,571)	-
At 31 December	-	2,612

2 Business combination

On 26 September 2004 Slovak Telecom entered into an agreement for the purchase of all EuroTel shares held by AWBV. The purchase transaction was authorized by the Anti-Monopoly Authority of the Slovak Republic and by anti-monopoly authorities subordinated to the European Commission in December 2004 and Slovak Telecom became the sole shareholder of EuroTel. Subsequently, on 31 December 2004 the General Assembly Meeting appointed new members of the Board of Directors and the Supervisory Board, at which time the Company obtained full control of EuroTel. If the acquisition had occurred on 1 January 2004, Group revenues would have been SKK 28,520 million and net profit would have been SKK 3,228 million.

As the purchase price was denominated in USD, the Company entered into a hedging transaction to hedge the risk of foreign currency exchange rate fluctuations. The designated hedging instruments were a forward foreign currency contract and foreign currencies held in cash. On completion of the transaction, the hedging result of SKK 1,116 million was included in the purchase consideration.

Details of net assets acquired and goodwill are as follows:

Purchase consideration	
– Cash paid	10,225
– Direct costs relating to acquisition	7
Total purchase consideration	10,232
Fair value of net assets acquired	(8,113)
Goodwill	2,119

Included in the SKK 2,119 million of goodwill recognised above are certain intangible assets that cannot be individually separated and reliably measured due to their nature, including synergies expected to arise from the acquisition of EuroTel.

The assets and liabilities arising from the acquisition are as follows:

	Fair value	Acquiree's carrying amount
Property, plant and equipment	6,921	7,851
Other intangible assets	1,569	1,569
Licenses	1,874	1,874
Brand	142	-
Customer contracts and related customer relationships	12,477	-
Inventories	214	214
Receivables	1,784	1,784
Cash and cash equivalents	863	863
Borrowings	(3,938)	(3,840)
Trade and other payables	(2,436)	(2,436)
Provisions	(243)	(243)
Net deferred tax liability	(2,670)	(468)
Net assets	16,557	7,168
Net assets acquired before 31 December 2004	(8,444)	
Net assets acquired (49%)	8,113	

Purchase consideration settled in cash	10,232
Cash and cash equivqlents in subsidiary acquired	(863)
Cash outflow on acquisition	9,369

The excess of the fair value of net assets acquired before 31 December 2004 over the value of the investment in joint venture before full consolidation (Note 1) in the amount of SKK 4,873 million is included in other reserves in shareholders' equity.

3 Revenue

	2004	2003
Traffic charges	6,745	7,762
Access fees	4,357	4,214
Other voice services	346	419
Voice total	11,448	12,395
Value added services	180	164
Data services	1,950	1,647
Terminal equipment	306	271
Fixed network total	13,884	14,477
Carrier services	1,501	2,003
Online	337	204
Broadcasting	804	818
Other	318	274
	16,844	1, 776

Revenue includes SKK 750 million of revenues from EuroTel (2003: SKK 761 million) and SKK 270 million from other related parties (2003: SKK 456 million).

4 Operating costs

	2004	2003
Staff costs	3,326	3,201
Material and equipment	989	824
Depreciation and amortisation (Note 7 and 8)	6,498	5,781
Network operators	2,383	2,831
Energy costs	380	404
Repairs and maintenance	505	443
Legal and consulting fees	188	105
Value added services	85	101
Foreign exchange differences (net)	(5)	20
Restructuring costs (Note 18)	252	127
Provision for onerous contract	(35)	63
Provision for bad and doubtful debts and write offs	4	218
Marketing	404	343
Postal expenses	174	203
IT services	131	131
Security	123	140
Rents	86	71
Other costs	1,045	858
	16,533	15,864
Own work capitalised	(882)	(715)
	15,651	15,149

Operating costs include SKK 906 million (2003: SKK 1,014 million) related to EuroTel and SKK 616 million to other related parties (2003: SKK 483 million).

Staff costs include SKK 377 million (2003: SKK 423 million) of contributions to the State social security scheme and SKK 5 million (2003: SKK 4 million) of remuneration to directors.

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

5 Financial income, net

	2004	2003
Interest arising on international financial institutions loans	(223)	(281)
Interest expense arising on cross currency interest rate swaps	(22)	(87)
Finance leases	-	(2)
Commitment fees and other financial expense	(36)	(41)
Net foreign exchange gains	138	270
Borrowing expense total	(143)	(141)
Change in fair values of financial instruments (Note 21)	10	(109)
Interest income from short term deposits	507	570
Net foreign exchange losses	(152)	(115)
Income from securities sold	-	24
Other	(4)	(3)
Net financial income	218	287

6 Taxation

	2004	2003
Current tax charge	180	766
Deferred tax income (Note 16)	(117)	(1 033)
Share of income tax of joint venture	93	163
Share of deferred tax of joint venture	125	(12)
	281	(116)

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

	2004	2003
Net profit before tax	2,588	3,632
Income tax calculated at 19% (2003: 25%)	492	908
Change in tax rate – deferred tax effect (Note 16)	-	(1,044)
Change in tax rate – deferred tax effect joint venture	-	(36)
Effect of income not taxable and expenses not deductible	(205)	15
Effect of income not taxable and expenses not deductible joint venture	5	7
Tax (release) / charge in respect prior years	(11)	34
	281	(116)

A new Slovak Corporate tax rate of 19% (previously 25%) was enacted effective 1 January 2004.

7 Property, plant and equipment

	Land and Buildings	Duct, cable and other outside plant	Telephone exchanges and related equipment	Radio and transmi-ssion equipment	Other fixed assets	Capital work in progress including advances	Total
At 1 January 2004							
Cost or valuation	6,453	25,020	35,583	4,392	4,406	1,657	77,511
Accumulated depreciation	(1,134)	(8,152)	(21,851)	(3,390)	(2,349)	(15)	(36,891)
Net book value	5,319	16,868	13,732	1,002	2,057	1,642	40,620
Opening net book value	5,319	16,868	13,732	1,002	2,057	1,642	40,620
Additions	-	-	-	-	-	5,478	5,478
Transfers	180	1,572	3,152	153	792	(5,849)	-
Disposals	(8)	(51)	(19)	(21)	(3)	-	(102)
Acquisition of subsidiary	-	-	1,627	3,791	835	668	6,921
Transfers from assets held for sale (Note 10)	168	-	33	-	(49)	-	152
Depreciation charge (Note 4)	(395)	(856)	(4,032)	(204)	(347)	(25)	(5,859)
Closing net book value	5,264	17,533	14,493	4,721	3,285	1,914	47,210
At 31 December 2004							
Cost or valuation	6,421	26,517	40,244	11,803	6,962	1,938	93,885
Accumulated depreciation	(1,157)	(8,984)	(25,751)	(7,082)	(3,677)	(24)	(46,675)
Net book value	5,264	17,533	14,493	4,721	3,285	1,914	47,210

8 Intangible assets

	Customer contracts and related customer relationships	Brand	Licenses	Goodwill	Other	Total
At 1 January 2004						
Cost	-	-	-	-	3,168	3 168
Accumulated depreciation	-	-	-	-	(1,741)	(1 741)
Net book value	-	-	-	-	1,427	1 427
Opening net book value	-	-	-	-	1,427	1 427
Additions	-	-	-	-	904	904
Disposals	-	-	-	-	(20)	(20)
Acquisition of subsidiary	12,477	142	1,874	2,119	1,569	18 181
Amortisation (Note 4)	-	-	-	-	(639)	(639)
Closing net book value	12,477	142	1,874	2,119	3,241	19 853
At 31 December 2004						
Cost	12,477	142	2,564	2,119	8,603	25 905
Accumulated depreciation	-	-	(690)	-	(5,362)	(6 052)
Net book value	12,477	142	1,874	2,119	3,241	19 853

Customer contracts and related customer relationships, licenses and brand represent intangible assets acquired through the effect of the EuroTel business combination. These intangible assets were estimated as having finite lives and are amortised under the straight-line method over the respective periods, as set out in the accounting policies.

Goodwill acquired through the business combination has been allocated to the EuroTel mobile cash-generating unit. The recoverable amount of the unit has been determined based on fair value less costs to sell. The key factor on which management based the determination of fair value less costs to sell was the relevance of the consideration paid by Slovak Telecom to acquire the remaining 49% economic interest in EuroTel, being a market price agreed between unrelated parties acting at arm's length.

9 Inventories

	2004	2003
Network communication	190	206
Mobile communication	206	-
Other	27	56
	423	262

Inventories are shown net of a provision of SKK 97 million (2003: SKK120 million).

10 Assets held for sale

	2004	2003
Land and buildings	262	429
Related equipment	51	36
	313	465

As a consequence of the restructuring of the Group certain items of property, plant and equipment are no longer required for the purposes for which they were originally purchased. Assets held for sale are carried at the lower of carrying amount and fair value less costs to sell. The Group has shown a related impairment loss of SKK 173 million in depreciation (Note 4).

Assets in the amount of SKK 152 million have been reclassified to non-current assets because the sale is not expected to qualify for recognition as a completed sale within the next 12 month.

11 Investments

	2004	2003
Investments available-for-sale	-	44
	-	44

In April 2004 the Group sold its current investments in line with its intention expressed in 2003.

12 Receivables and prepayments

	2004	2003
Domestic trade receivables	2,896	1,853
Foreign trade receivables	171	362
Amounts due from related parties (Note 22)	51	82
Other receivables	262	268
Deferred instalment fees	135	62
Prepayments	77	53
	3,592	2,680

Trade receivables are shown after a provision for impairment of SKK 1,641 million, of which SKK 803 million relates to EuroTel (2003: SKK 908 million).

Foreign trade receivables and amounts due from related parties include amounts due from international operators providing carrier services, after set-offs of SKK 138 million (2003: SKK 413 million).

13 Cash and cash equivalents

	2004	2003
Cash	2,978	12,390
Cash equivalents	2,684	3,295
	5,662	15,685

14 Share capital and reserves

On 1 April 1999 Slovak Telecom became a joint stock company, with 20,717,920 ordinary shares authorised, issued and fully paid at par value of SKK 1,000 per share. Deutsche Telekom AG acquired 51% of Slovak Telecom through a privatisation agreement effective 4 August 2000, by which the Company issued 5,309,580 new ordinary shares with par value of SKK 1,000 per share. The shares were issued at a 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.

As of 31 December 2004 the Company had authorised and issued 26,027,500 ordinary shares (2003: 26,027,500) with a par value of SKK 1,000 per share. All issued shares were fully paid.

The statutory 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 2004, the Group transferred 10% of prior year statutory profits to the reserve fund.

In May 2004 a dividend in respect of 2002 of SKK 2,056 million was paid to the shareholders.

On the Company's acquisition of a controlling interest in EuroTel (Note 2), all assets and liabilities of EuroTel were remeasured to their fair values at 31 December 2004. The excess of the fair value of net assets acquired before 31 December 2004 over the value of the investment in the joint venture before full consolidation of SKK 4,873 million is included in other reserves.

15 Interest bearing borrowings

	2004	2003
International financial institution loans	4,124	5,087
Syndicated bank loan	3,938	-
Slovak commercial banks	37	45
Total interest bearing borrowings	8,099	5,132
Less current portion of interest bearing borrowings	(775)	(740)
Long term portion of interest bearing borrowings	7,324	4,392

Repayments of the long term portion of interest bearing borrowings fall due as follows:	2004	2003
Between one and two years	635	684
Between two and five years	5,704	2,023
After five years	985	1,685
	7,324	4,392

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 a Syndicated Bank Guarantee - at 18 September 2002 the Group signed a Syndicated Bank Guarantee for an amount of EUR 93 million (SKK 3,828 million) which expires in September 2007.

The syndicated bank loan provided by Citibank, N.A. and Všeobecná úverová banka, a.s. is unsecured and consists of revolving and term tranches.

At 31 December 2004, the Group has total undrawn loan facilities available of SKK 700 million (2003: SKK 200 million). The facility is available for the period till 31 July 2006.

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

	2004	2003
Carrying amount	8,099	5,132
Fair value	8,363	5,402

Interest bearing borrowings can be analysed by currency as follows, after taking into account the impact of the cross currency interest rate swaps and a forward foreign exchange contract outstanding at 31 December 2004:

	2004	2003
Euro and EU member currencies	-	5,087
Slovak crowns	8,099	45
	8,099	5,132

The Group is exposed to foreign exchange risk related to foreign currency debt repayments. The Group entered into cross currency interest rate swaps and a forward foreign currency contract to hedge this exposure (Note 21).

Interest bearing borrowings can be analysed into fixed rate and variable rate debt as follows:

	2004	2003
Fixed	5,391	4,000
Variable	2,708	1,132
	8,099	5,132

The Group's major financial market risk exposure is interest rate fluctuations, in Slovakia, U.S. and Western Europe.

The average effective interest rate at 31 December 2004 was 5.22% (2003: 5.06%).

16 Deferred tax

Movements in deferred income taxes are as follows:

	2004	2003
At 1 January	3,306	4,339
Impact of change in the tax rate from 25 % to 19 % in 2003 (Note 6)	-	(1,044)
(Credit) / charge to income for the year	(117)	11
Acquisition of subsidiary	2,670	-
At 31 December	5,859	3,306

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

	2003	Credited / charged to income	Acquisition of subsidiary	2004
Accelerated tax depreciation	3,481	(135)	647	3,993
Unrealised foreign exchange gains / losses	11	59	-	70
Bad debt provision	(48)	(4)	(29)	(81)
Restructuring (Note 18)	(24)	(48)	-	(72)
Fair value of derivatives (Note 21)	(97)	2	(4)	(99)
Tax loss carried forward	-	-	(118)	(118)
Fair value adjustments	-	-	2,202	2,202
Other	(17)	9	(28)	(36)
Net deferred tax liability	3,306	(117)	2,670	5,859

	2004	2003
Deferred tax assets to be recovered after more than one year	(409)	(130)
Deferred tax liabilities to be settled after more than one year	6,136	3,133
	5,727	3,003

17 Trade and other payables and deferred income

	2004	2003
Trade and other payables and deferred income due within one year		
Domestic trade payables	3,743	2,289
Foreign trade payables	324	432
Amounts due to employees	215	362
Payables to related parties (Note 22)	124	253
Accruals and other payables	993	131
Deferred income	1,210	577
Fair value of derivative instruments (Note 21)	55	-
Dividend payable	-	2,056
	6,664	6,100
Other payables and deferred income due after one year		
Fair value of derivative instruments (Note 21)	436	508
Other long term payables	22	14
Deferred instalment fees and activation costs	423	268
	881	790

Foreign trade payables and payables to related parties include amounts due from international operators providing carrier services, after set-offs of SKK 138 million (2003: SKK 413 million).

18 Provisions

	Restructuring	Asset retirement obligations	Legal claims	Loyalty program	Dealers commissions	Other	2004 Total	2003 Total
At 1 January	127	15	31	-	-	63	236	324
Additional provisions	449	-	52	-	-	3	504	236
Unused amount reversed	-	-	-	-	-	-	-	(50)
Amount used	(197)	(13)	-	-	-	(35)	(245)	(274)
Acquisition of subsidiary	-	130		63	43	7	243	
At 31 December	379	132	83	63	43	38	738	236
Non-current liabilities	-	132	-	-	7	5	144	15
Current liabilities	379	-	83	63	36	33	594	221
	379	132	83	63	43	38	738	236

The restructuring of the Group's operations will result in the loss of 1,797 jobs in 2005. An agreement has been reached with the local union representatives based on a detailed formal plan that specifies the number of staff involved and their locations and functions. The amount payable to staff to be made redundant was calculated using a method agreed with the trade unions. The full amount of the 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 2004.

The Group is subject to asset retirement obligations associated with its operating leases. Lease agreements may contain clauses requiring restoration of the leased site at the end of the lease term, creating asset retirement obligations. Landlords may, however, choose not to exercise their right to restoration as technical instalments are often considered useful improvements.

Provisions include amounts in respect of certain legal claims brought against the Group. In the opinion of the Group's 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 2004.

The loyalty program provision covers the cost of equipment, accessories, gifts and services provided to participants in EuroTel's loyalty program in exchange for credits awarded primarily for money spent. The provision has been recognized based on previous experience of the usage of these credits by loyalty program participants.

EuroTel grants its dealers certain additional commissions when customers remain active for a certain period of time from the date of activation. The provision has been recognized based on customer loyalty patterns experienced by EuroTel in the past.

19 Net cash flows from operating activities

	2004	2003
Net profit	2,307	3,749
Adjustments for:		
Income tax	281	(116)
Depreciation and amortisation (Notes 4)	6,498	5,781
Interest income, net	(265)	(131)
Share of profit of joint venture (Note 1)	(1,177)	(719)
Loss on disposals on fixed assets	36	20
Net foreign exchange gains and other non cash items	(139)	(319)
Movements in provisions	259	(88)
Operating profit before working capital changes	7,800	8,177
Decrease in trade and other receivables	392	384
Decrease in inventories	86	147
Increase in trade and other payables	291	609
Cash generated from operations	8,569	9,317
Income taxes paid	(532)	(647)
Net cash flows from operating activities	8,037	9,670

20 Commitments

Capital commitments
The Group had the following capital commitments at 31 December:

	2004	2003
Capital expenditure that has been contracted for but has not been provided for	1,029	1,446

The commitments under contractual arrangements principally relate to the fixed-line and mobile telecommunications networks, with the majority of payments due within one year.

Licenses
Under the terms of the UMTS license, EuroTel is obliged to commence the provision of UMTS services no later than 30 months from 30 September 2003, the date on which full control of the necessary radio frequencies was granted to EuroTel.

Operating lease commitments
The Group is committed under operating leases with terms ranging from one to ten years relating primarily to office, retail space and motor vehicles. The aggregate future minimum lease payments under non-cancelable operating leases can be analyzed as follows:

	2004	2003
Operating commitments due within one year	205	-
Operating commitments due between one and four year	336	-
Operating commitments due after four year	442	-
	983	-

21 Derivative financial instruments

Movements in derivatives during the year ended 31 December 2004 are set out below:

	Cross currency interest rate swaps	Menové forwardy	Spolu
At 1 January 2004			
Fair value	508	-	508
Deferred income tax (Note 16)	(97)	-	(97)
Net balance at 1 January 2004	411		411
Movements during the year:			
Change in fair value (Note 5)	(73)	63	(10)
Acquisition of subsidiary	-	15	15
Up-front payment for interest differential	-	(27)	(27)
Deferred income tax (Note 16)	14	(12)	2
Net balance at 31 December 2004	352	39	391
Non current liabilities	435	55	490
Deferred income tax (Note 16)	(83)	(16)	(99)
Net balance at 31 December 2004	352	39	391

While these contracts may provide effective economic hedges under the Group's risk management policies, they do not qualify for hedge accounting under the specific rules of IAS 39. Changes in the fair values of these derivative instruments are recognized immediately in the income statement.

The Group has entered into cross currency interest rate swaps and forward foreign currency contracts to manage the exposure to fluctuations in foreign currency exchange rates related to repayments of foreign currency borrowings and anticipated future foreign currency expenditures.

Cross currency interest rate swaps

At 31 December 2004 the Group was party to cross currency interest rate swaps with outstanding principal payable of EUR 34 million and outstanding principal receivable of USD 29 million. The Group expects to pay/receive interest at variable interest rates. At 31 December 2004 the interest rate payable was 2.586% and the interest rate receivable was 2.12%. Further, the Group was party to a multicurrency swap with outstanding principal payable of USD 21 million and outstanding principal receivable of USD 23 million, representing a defined multicurrency pool unit. The interest rate differential from the multicurrency swap was paid upfront. Cross currency interest rate swaps mature in 2010.

Forward foreign exchange contracts

At 31 December 2004 the Group was party to forward foreign exchange contracts with outstanding principal payable of SKK 5,260 million and outstanding principal receivable of EUR 134 million. The forward foreign exchange contracts mature in 2005.

22 Related party transactions

The Group provides services to the State and related businesses on normal commercial terms. The Group receives revenues from and pays expenses to EuroTel and to Deutsche Telekom AG and its subsidiaries, associates and joint ventures for calls which access each others' networks and for 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. At 31 December 2003 payables to Deutsche Telekom included a dividend payable of SKK 1,049 million.

	Receivables		Payables		Revenues		Expenses	
	2004	2003	2004	2003	2004	2003	2004	2003
EuroTel	-	75	-	106	750	761	906	1,014
Deutsche Telekom	-	-	63	1,110	-	-	232	110
T-Systems	19	4	23	81	223	399	167	303
T-Mobile	25	-	-		-		-	
Other	7	3	38	5	47	57	212	66
Directors		-	-	-	-	-	5	4
Total	51	82	124	1,302	1,020	1,217	1,522	1,497

Other includes Deutsche Telekom's subsidiaries, associates and joint ventures.

23 Contingencies

The Group is involved in legal and regulatory proceedings in the normal course of business. Management is confident that the Group will suffer no material loss as a result of such proceedings in excess of the provision already recorded in the consolidated financial statements (Note 18).

24 Service Concession Arrangements

The Group is involved in service concession arrangements. In November 1990, EuroTel was awarded a 20-year exclusive license to operate an analog NMT 450 MHz network in the region now known as the Slovak Republic. EuroTel also received a license to construct and operate a public switched packet data network. EuroTel launched NMT 450 mobile telecommunications services in September 1991 and began to provide managed data network services in November 1991. In August 1996, EuroTel received one of two licenses granted by the Ministry of Transport, Post and Telecommunications to build and operate a GSM 900 MHz network and launched this service in February 1997. In July 1999, EuroTel's original GSM 900 MHz license was amended and EuroTel received one of two licenses granted by the Ministry of Transport, Post and Telecommunications to build and operate a GSM 1800 MHz network. In July 2000, the Telecom Office consolidated EuroTel's licenses into one general license. This is the license under which EuroTel currently operates and it is valid until 2011. Prior to the expiration of this license, EuroTel has the option to renew the license for up to an additional 10 years. EuroTel may be required to pay certain fees for the renewal of the license.

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

Effective 16 July 2002 EuroTel was awarded the license for the implementation and operation of a public mobile telecommunication network based on the Universal Mobile Telecommunications System ("UMTS") standard (the "UMTS license"). The UMTS license also provides for control of related radio frequencies by EuroTel. On 30 September 2003, EuroTel was granted full control of the frequencies under the terms of the UMTS license and is obliged to launch commercial UMTS services within 30 months from that date. The UMTS license is valid through to 2022 when EuroTel has the option to request its prolongation.

Independent Auditor's Report to the Shareholders of Slovak Telecom, a.s.

We have audited the accompanying consolidated balance sheet of Slovak Telecom, a.s. and its subsidiaries as of 31 December 2004, and the related consolidated statements of income and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of the Company as of 31 December 2003 were audited by another auditor whose report dated 21 February 2004 expressed an unqualified opinion on those statements. We did not audit the financial statements of EuroTel Bratislava, a.s., a wholly owned subsidiary, which statements reflect total assets and net profit constituting 18 percent and 42 percent, respectively, of the related consolidated totals. Those statements were audited by PricewaterhouseCoopers Slovensko, s.r.o. whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for EuroTel Bratislava, a.s., is based solely on the report of PricewaterhouseCoopers Slovensko, s.r.o.

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 as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures included in the financial statements. An audit also includes assessing the accounting principles used in preparing the financial statements and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of PricewaterhouseCoopers Slovensko, s.r.o. provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of PricewaterhouseCoopers Slovensko, s.r.o., the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2004, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Bratislava, 21 February 2005

Ernst & Young

Ernst & Young Slovakia, spol. s r.o.

Proposal for profit distribution for the year 2004 approved by corporate bodies is as follows:

Profit after tax (in accordance with Slovak Accounting Standards)	SKK 389m
Distribution to funds:	
Reserve fund	SKK 39m
Social fund	SKK 14m
Retained earnings	SKK 336m