ANNUAL REPORT 2001

SLOVENSKÉ TELEKOMUNIKÁCIE

ANNUAL REPORT 2001

VISION

- *To be the best telecommunications Company in Slovakia*

Company Profile of Slovenské telekomunikácie, a. s.

Slovenské telekomunikácie, a. s., provides national and international telephone services, and a wide portfolio of data services. The Company also provides distribution and transmission of radio and television signals and offers a wide range of value added services.

The year 2001 was an important milestone in the development of Slovenské telekomunikácie, a. s.; especially after concluding a contract of sale with Deutsche Telekom AG that entered as a strategic investor on July 18, 2000.

Deutsche Telekom AG with a 51% share; the Ministry of Transport, Posts, and Telecommunications with a 34% share; and the National Property Fund of the Slovak Republic with its 15% share; are the shareholders of Slovenské telekomunikácie, a. s.

Slovenské telekomunikácie, a. s., owns and operates a telecommunications network, covering the territory of the Slovak Republic. As of December 31, 2001, the Company supported 1,584,451 main telephone lines, including ISDN B-channels, and the public pay phone machines.

Slovenské telekomunikácie, a. s., is a leader in the field of telecommunications services provided in Slovakia. Its leadership was secured by: the nation-wide coverage, by the wide range of products and services offered, and by the complex business strategy, designed and introduced by the Company's management during the year 2001. The investments of the previous year, reaching the amount of SKK 6.07 BN, ranked the Company into position as being one of the biggest investors in the country.

The year 2001, the same as the previous year, was a year of changes. We endeavoured to make the operating activities and costs more effective, as well as to develop new business fields. The result of our endeavour was the maximalization of the Company's performance. Slovenské telekomunikácie, a. s., became, involved in the building of an attractive and motivating working environment, one of the preferred employers in Slovakia.

Slovenské telekomunikácie, a. s., is a member of the International Telecommunications Union, where it is represented in the standardization, radio-communications, and development sector. The Company is also a shareholder in the EURESCOM (European Institute for Research and Strategic Studies in Telecommunications). It is a member of ETNO (European Public Telecommunications Network Operators' Association), ETIS (European Telecommunications Informatics Services), ETSI (European Telecommunications Standards Institute); and it is also active in various international projects and forums. Slovenské telekomunikácie, a. s., is also a signatory of intergovernmental treaties and a member of satellite organizations, e.g. EUTELSAT (European Telecommunications Satellite Organization) and INMARSAT (International Maritime Satellite Organization). A guarantee for the further development of telecommunications services in Slovakia, and also for the Company's growth, lies in the use of the expertise and know-how of Deutsche Telekom AG, the Company's strategic investor, as well as the maximization of its employee's performance.

KAI HÖHMANN
CHAIRMAN OF THE BOARD OF DIRECTORS, SLOVENSKÉ TELEKOMUNIKÁCIE, A. S.

After the first full year of Slovenské telekomunikácie, a. s., under the partnership in the management of Deutsche Telekom and the Slovak Republic, the Company is heading in the right and promising direction.

An ambitious Business Plan was the challenging guideline for the development of Slovenské telekomunikácie, a. s. Introducing a rebalancing concept, was one major step in preparing Slovenské telekomunikácie, a. s., for the increased competitive environment of the future.
An "on-line" offensive was started in the second half of the year. It was accompanied and supported by the innovative ISDN-services, that led to a boost in Internet connections.
Understanding and meeting customer's demands, also form a part of the transformation process from a former state monopoly into a customer oriented private Company.

Daily enacting the values of our Company supports our Company's vision – to be the best telecommunications Company in Slovakia. Those values are: customer orientation; team work orientation; personal responsibility; mutual respect; and continuous improvement. They have become the doctrine of our Company and we will continue to apply them also in the year 2002.

In order to position Slovenské telekomunikácie, a. s., as a strong player in an increasingly competitive market, further changes were needed. The shareholders approved a comprehensive corporate strategy in order to adapt the Company to the speed of the changing market environment, and to better meet the individual needs of our customers. Based on this strategy, there will follow a series of prioritised activities, which will allocate and focus the Company's resources on the most valuable areas of business. Slovenské telekomunikácie, a. s., will devote special attention towards the goal of operational excellence that is needed in order to retain the strong position in the market.

Challenges and changes were the driving forces for the management of Slovenské telekomunikácie, a. s., in the year 2001. I am convinced that Slovenské telekomunikácie, a. s., is heading in the right direction in order to keep, and even enhance, its leading position in the Slovak telecommunications market.

I would like to thank our customers and staff members for going with us through the period of changes. I would also like to encourage the management and employees to continue contributing toward the fulfilment of the Company's challenging goals.

Kai Höhmann
Chairman of the Board of Directors
Slovenské telekomunikácie, a. s.

LADISLAV MIKUŠ
PRESIDENT/CEO, SLOVENSKÉ TELEKOMUNIKÁCIE, A. S.

The main goal, which Slovenské telekomunikácie, a. s., stressed in the year 2001, was the transformation from being a technology – oriented Company, into being a firm, whose main objective would be to fulfill both the customers' demands and expectations. Our vision of being the best telecommunications company in Slovakia could only be fulfilled this way.

The key mission, which we took care to be performed on a daily basis was: customer orientation; increase of operating activities and cost structure; development of new business fields; and last but not least, the reallocation of our resources and investments.

If I were to briefly characterize and evaluate our results from the previous year, I would state that we accomplished a great deal of very important work in preparation for a fully liberalized telecommunications market. The first step towards that goal was launching a complex development strategy for Slovenské telekomunikácie, a. s., which we then began to successfully carry out.

The economic results of these operations prove that the energy invested in the aggressive transformation of Slovenské telekomunikácie, a. s., into a market and customer oriented firm, was successful. The profit from operations increased by SKK 1,033 Mio., compared with the year 2000. The revenue increased by SKK 1,740 Mio. The profit before tax, reached SKK 4,499 Mio. in the year 2001 – an increase of SKK 3,729 Mio., in relation to the year 2000.

Last year's positive operations results were positively influenced by our significant internal savings and the use of synergies with Deutsche Telekom AG (our strategic partner). As I mentioned in my address in the Annual Report from the year 2000, the new management initiated a process of transformation and revitalization, which consisted of ten top projects. We not only started these projects last year, but also managed to successfully complete some of them. The overall renumbering of national codes in the public telecommunication network, which was prepared and launched in record-breaking time, exemplifies one of these projects. It was completed with almost a yearlong lead-time by July 1, 2001. The result of this project is that our customers will have the clearest numbering plan in Europe, which we guarantee will not be changed for a minimum period of 20 years.

Customer Care is our most important and top project. As part of this Project, in November 2001, we opened a modern Call Center for providing customer services in Košice. We are the first telecommunications operator in Europe that managed to perform such an important project within the time frame of four months.

The on-going project of "Corporate Culture Change" is an extraordinarily important project of Slovenské telekomunikácie, a. s. Restructuring in the field of Human Resources is closely tied to this project. We are well aware of the sensitivity of this issue; therefore we gave special attention to the area of employees who worked in "redundant positions". Throughout the year 2001, the Human Resources Unit worked within the Employment in Slovenské telekomunikácie, a. s., Project to find a way to diminish the impact of, what was seen as, necessary changes in the employment of "redundant" employees.

Looking back now, can I say that the road we embarked upon together in the year 2001 was the right one? The answer lies in the full-fledged support that has come from our customers and shareholders. I would like to express my gratitude to our employees who supported us on this road we have taken, by the consistent quality of their everyday work. I would also like to thank all of our customers for their loyalty to the Company. They are the ones who have challenged us with new demands and who help us to set ambitious, yet attainable goals.

Ladislav Mikuš
President/CEO
Slovenské telekomunikácie, a. s.

MISSION

To promote continuous Company growth; through achieving the highest level of customer satisfaction, while providing the most innovative products and services.

To build a Company which is a preferred employer; by creating an interesting, motivating, and challenging environment.

EXECUTIVE MANAGEMENT BOARD

Dr. Mark Peter Montagne von Lillienskiold Senior Executive Vice-President for Finance	Dr. Anna Hudáková Executive Vice-President for Human Resources	Ing. Ladislav Mikuš President/CEO	Paul Büki Executive Vice-President for Marketing and Sales	Dr. Torsten Minkwitz Executive Vice-President for Information Technologies	Jörg Michael Kramer Executive Vice-President for Network Infrastructure

Board of Directors of Slovenské telekomunikácie, a. s.

Dr. Kai Höhmann	Chairman of the Board of Directors
Ing. Štefan Bugár	Vice-Chairman of the Board of Directors
Fridbert Gerlach	Member
Dr. Mark Peter Montagne von Lillienskiold	Member
Ing. Ladislav Mikuš	Member
Ing. Jozef Pavlík	Member
Ing. Peter Stropko	Member

Supervisory Board of Slovenské telekomunikácie, a. s.

Ing. Dušan Faktor	Chairman, until May 11, 2001
Ing. Anton Závodský	Chairman, as of May 11, 2001
Dr. Frank-Reinhard Bartsch	Vice-Chairman
Dr. Christoph von Damm	Member
Ing. Štefan Genčúr	Member
Ing. Pavel Kyman	Member
Ing. Milan Luknár	Member, until May 11, 2001
Ing. Viliam Podhorský	Member, as of May 11, 2001
Ján Martinovič	Member
Dr. Jens Nebendahl	Member
JUDr. Eleonóra Valentová	Member

Organisational Structure of Slovenské telekomunikácie, a. s.

Corporate Bodies

- General Meeting
- Supervisory Board
- Board of Directors

Headquarters

- Unit reporting to CEO
- Finance Unit
- Marketing & Sales Unit
- Information Technologies Unit
- Network Infrastructure Unit
- Human Resources Unit
- Governmental Affairs Unit

Branches

- Riaditeľstvo telekomunikácií Bratislava, o. z.
- Riaditeľstvo telekomunikácií Západné Slovensko, o. z.
- Riaditeľstvo telekomunikácií Stredné Slovensko, o. z.
- Riaditeľstvo telekomunikácií Východné Slovensko, o. z.

Regional

- Rádiokomunikácie, o. z.
- TELEMONT, o. z.
- Technická ústredňa telekomunikácií, o. z.

Special

Organisational Structure of Slovenské telekomunikácie, a. s.

The organisational structure of Slovenské telekomunikácie, a. s., is a part of the management system with the following structure:
- Corporate Bodies
- Headquarters
- Branches

with the aim of effectively implementing the Company's business objectives.

Corporate Bodies

General Meeting is the Company's supreme body. The General Meeting's scope of activities is defined by the Articles of Association.

Supervisory Board is the supervisory body of the Company. It oversees the Board of Directors in exercising, powers, and its conduct of the Company's business activities.

Board of Directors is the Company's statutory body. It acts 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 operations and makes decisions on all matters of the Company, unless these fall within the powers of other corporate bodies of the Company pursuant to Company by laws or Articles of Association or unless they are delegated to other corporate bodies by the Board of Directors.
The Board of Directors appoints the Executive Management Board of the Company and delegates appropriate powers.

Headquarters has the following structure
- President/CEO with the Unit reporting to CEO
- Finance Unit, reporting to the Sr. Executive Vice-President - CFO,
- Marketing and Sales Unit, reporting to the Executive Vice-President - CM&SO,
- Information Technologies Unit, reporting to the Executive Vice-President - CIO,
- Network Infrastructure Unit, reporting to the Executive Vice-President - CTO,
- Human Resources Unit, reporting to the Executive Vice-President - CHRO,
- Governmental Affairs Unit, reporting to the Executive Vice-President - CGAO,
- President of the Company and all Executive Vice-Presidents are members of the Company's Executive Management Board.

Branches are organisation business units of the Company, registered in the Company's Register. Branches have their own management structure (administration) and executive units.
Branches are headed by Branch directors. Branch directors are authorized to act on behalf of the Company and to exercise all legal acts pertaining to the branch in accordance with the Commercial Code and the Company's internal regulations.
Operations of the Company in the regions of Bratislava, Western Slovakia, Central Slovakia and Eastern Slovakia are managed by four core branches in the form of Telecommunications Directorate.
Distribution and broadcasting of radio and television signals throughout the country is provided and administered by Rádiokomunikácie, o. z.
Branches of Telemont, o. z. (TELEMONT) and Technická ústredňa telekomunikácií, o. z. (TUT) play a supporting role.
TELEMONT is responsible for technical installations of all types of equipment in the telecommunications network. It may also provide these services outside the organization.
TUT handles the provisioning and distribution of supplies and materials for the Company and also the production and servicing of supplementary items.

CUSTOMER ORIENTATION

CUSTOMER ORIENTATION

TEAM WORK ORIENTATION

PERSONAL RESPONSIBILITY

MUTUAL RESPECT

CONTINUOUS IMPROVEMENT

Our existing and future customers are the reason why Slovenské telekomunikácie, a.s. exists. That is why we are trying to establish professional relations with them. We continuosly identify what our customers expect from us. We try to understand them to meet their needs and create stable relationships. We do it also because we take into acount strong competition in our industry. Customer orientation applies also to our company environment where we are all internal customers to each other.

Marketing and Sales

Our marketing and sales strategy reflects full orientation on customer needs to provide high quality products and services at competitive prices.

To reach the Company's goal of being the best telecommunications company in Slovakia, our marketing and sales activities concentrated primarily on two main priorities:

- To offer products and services at competitive and market oriented prices
- To carry out organisational changes which would reflect the telecommunications market requirements

Competitive and market oriented prices

During the year 2001, Slovenské telekomunikácie, a. s., twice implemented a new tariff structure. The basic pillars of this structure are: cost-orientation – increase of monthly rental, decrease of international and long-distance tariffs, simplification of the tariff plan, merging the two long-distance zones into one, extension of the local area.

Need for price change:
- The old tariff structure was a remnant of the former company strategy
- Some services were cheap such as the monthly rental, other services were quite expensive such as long-distance and international calls
- The losses in the local area were cross-subsidised with the wins from long-distance and international calls
- The result was a deformed tariff structure, a typical feature of monopolistic telecommunications companies
- In a competitive environment such a system is not able to survive

All these needs resulted in price reductions in the high margin areas like international and long-distance price increase in the deficit areas like monthly rental.

Tariff changes in 2001

Tariff changes brought an expansion of zones for local calls from the original servicing area nodes (UTO) into the whole primary area. This means, that the calls made into some of the original neighbouring area nodes changed from being long-distance calls to local calls. Compared to the original structure, the new tariff structure equalised customers to a large degree. The prices for the long-distance calls dropped significantly. Although the Company slightly raised the prices for local calls, the local call zones broadened at the same time.

From July 2001, the price for international calls dropped by an average of 14%. The prices for calls made to the USA and European Union countries decreased on an average of 21%. The prices of calls made to Czech Republic, Germany, Poland, Austria, and Hungary decreased by 17%. At the same time, the prices for peak, off-peak, and weekend traffic were unified. The users pay the same price regardless of the time they make the telephone call.

As of July 1, 2001, Slovenské telekomunikácie, a. s., changed all area codes in the public telecommunications network. This brought the Company into the position of a company with the most transparent numbering plan in Europe.

The changing of area codes was one of the most technically complicated tasks to be carried out before the time of telecommunications market liberalisation. By the change, Slovenské telekomunikácie, a. s., closed the step-by-step transition to a new Numbering plan for the Slovak Republic.

This change brought merging of various area nodes into one primary area. Consequently, the whole structure became simpler. The original 82 area codes were replaced by 25 new area codes of the primary areas (the area code 02 for Bratislava, the codes beginning with 03X for Western Slovakia, 04X for Central Slovakia and 05X for Eastern Slovakia.).

The customer dialling the changed area code no longer had to distinguish among the charge bands. The new area codes brought customers the possibility of easier orientation, as the area code structure is much clearer.

Marketing and Sales

Changes in organisation aimed at the telecommunications market

This important change affected the Marketing and Sales Unit which began to lay down basic pillars of performance to support the mentioned change in Slovenské telekomunikácie, a. s. Marketing has centralised. Marketing communication, marketing research, as well as marketing and product management became more intensive. On the other hand, a new support base and new forms of sales have been developing.

An important step towards reaching the Company's goals was a considerable strengthening of marketing activities, high profile publicity was stimulated through our creative TV commercials. During the period in which we were changing the area codes in the summer of 2001, we ran a TV spot to support it. The spot was evaluated by the marketing communication professionals as, "the best commercial in June", and it was also awarded the prestigious "Strieborný klinec 2001" award. In December, the TV spot supporting the Christmas offer for service Internet ST Online – ST Claus, was evaluated as, "the best TV commercial" in December.

A. Distribution channels

A.1 Infotel – Point of Sales

Throughout the year 2001, Infotel was the contact and sales point of Slovenské telekomunikácie, a. s., for residential and small businesses. The stress was placed on securing sufficient material; supplying information on services provided; and on running campaigns. During 2001, Infotels' image as Slovenské telekomunikácie, a. s. presentation, consultation and sales points, was strengthened. One of the most modern Infotels was opened in Martin in December 2001.

A.2 Indirect Sales

In the year 2001, one of the most emphasised fields of indirect sales was the development of indirect distribution channels. These were based on Company partnership, which meant the possibility of selling products at a top professional level. This part of business was developing in the most dynamic way during 2001.

A.3. Direct Sale to business customers

In the year 2001, Slovenské telekomunikácie, a. s., began to fulfil its strategy of taking care of individual firms and organisations. To make ourselves more available to our customers, Slovenské telekomunikácie, a. s., organised according to the regions of Slovakia qualified sales representatives into four teams. Starting on April 1, 2001, the activities towards business customers intensified.

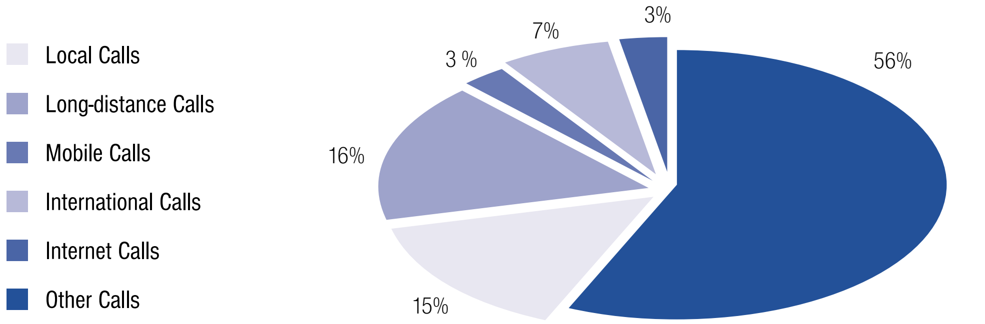
Key Account Managers are focusing on these four market segments: state administration, service providers, financial institutions, and production area.

A.4. Call Center 0800 123 456

In August 2001, Slovenské telekomunikácie, a. s., started the first phase of the "Customer care and billing" program. The project enables the Company to meet both the present and the potential customers' requirements better and more flexibly. The first important step of this project was the opening of the Call Center in November 2001. The customers were provided with the possibility of reaching the Company via 0800 123 456 toll-free number. They are also able to obtain information on selected products and services from either the operator or automatic voice announcement. Up to the end of the year 2001, the newly opened Call Center provided services to an average of 1,700 customers a day.

Marketing and Sales

Traffic by call direction 2001

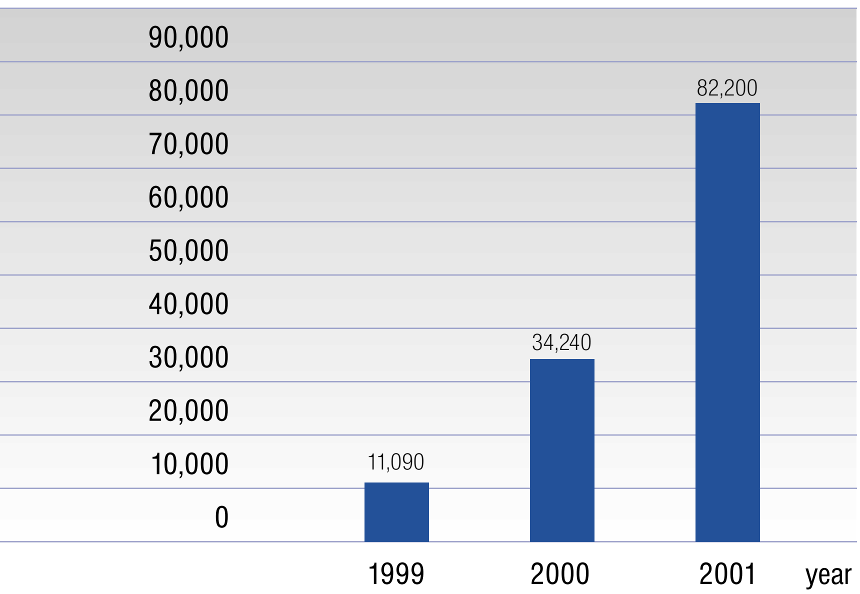


B. Provided products and services

B.1. Voice Services

During 2001, as many as 1, 514, 897, 519 calls were made, of which the biggest part represented local calls and calls to mobile networks.

Development of number of ISDN Channels



ISDN – boom

The objective of Slovenské telekomunikácie, a. s., was to increase considerably the ISDN channels penetration in the year 2001. The number of new ISDN channels has increased by 140%.

As of October 1, 2001, Slovenské telekomunikácie, a. s., made the ISDN services available to smaller businesses, thus reaching a broader public, by a brand new promotion of subsidised ISDN equipment. Intensive media promotion increased the public awareness of the practical use and the advantages of ISDN services; thus positively affecting the number of newly installed accesses. The lower promotional prices for Internet access via ISDN, valid throughout the entire year 2001, contributed considerably to the Internet development on the Slovak market.

Low User Package

As of July 2001, Slovenské telekomunikácie, a. s., provides its customers with a new calling program titled Low User Package. This program addresses those who, primarily, use the fixed telephone line for receiving telephone calls.

Outgoing calls bill

As of August 1, 2001, Slovenské telekomunikácie, a. s., broadened its offer of services by providing an outgoing calls bill - by means of an electronic document sent via the Internet. The outgoing calls bill via the Internet was provided in two programs: Štandard and Komfort.

Marketing and Sales

Special service provided with respect to the terrorist attacks in the United States of America

Slovenské telekomunikácie, a. s., was the first Slovak telecommunications company that reacted to the terrorists attacks in the USA. Starting from September 12, 2001 at 2 p.m. until September 16, 2001 midnight, the company offered free calls with the 001 area code to USA. As many as 119,798 calls were made with an average length of 11 minutes 38 seconds.

B.2. Value Added Services

ST gratis service (the toll-free number 0800) offers the possibility of a free call by dialing the number with service access code 0800 and 0820. An increasing popularity and interest in ST gratis (toll-free number 0800) was represented by a 48% increase in revenues in comparison to the year 2000.

A new desired alternative to service ST gratis - Shared cost number 0850 - was introduced in 2001. This service was also based on a new platform of Intelligent Networks, using one universal number. The service enables the dividing of call costs between the calling and the called party, according to how the called party defines price conditions.

Slovenské telekomunikácie, a. s., provided 133 abbreviated numbers, which served public convenience or humanitarian purposes.

Slovenské telekomunikácie, a. s., provided the telephone connection from 15,060 public payphones. The coin-operated pay phones represented 46% and the card-operated pay phones 54% of the total number of all payphones.

The smart cards distributed by Slovenské telekomunikácie, a. s., can be used in all public card payphones. In the year 2001, as many as 1,787,922 smart cards were sold in the value of SKK 199,006,500. During the year 2001, a new second-generation eurochip was introduced, which is more resistant to forgery.
Customers travelling abroad, often use the Global prepaid card and the Echo card. These smart cards allow calls to be made from more than 40 countries at competitive prices. Most of the calls made by customers using the smart cards originated in Germany, Great Britain, Austria and the Czech Republic.

Slovakia Direct Service offers customers the possibility of making collect telephone calls from abroad, which are connected by a Slovak-speaking operator. The Company guarantees availability of the service 24 hours a day from more than 40 countries. During the year 2001, the majority of calls that were made through the Slovakia Direct service originated in the Czech Republic (23%) and Germany (20%).

Inquiry Service is an inseparable part of the product portfolio of Slovenské telekomunikácie, a. s. The Inquiry Service provides the customers with the latest information on telephone and fax numbers in Slovakia and abroad; on the audiotex number services, as well as on abbreviated numbers through operators 24 hours a day.

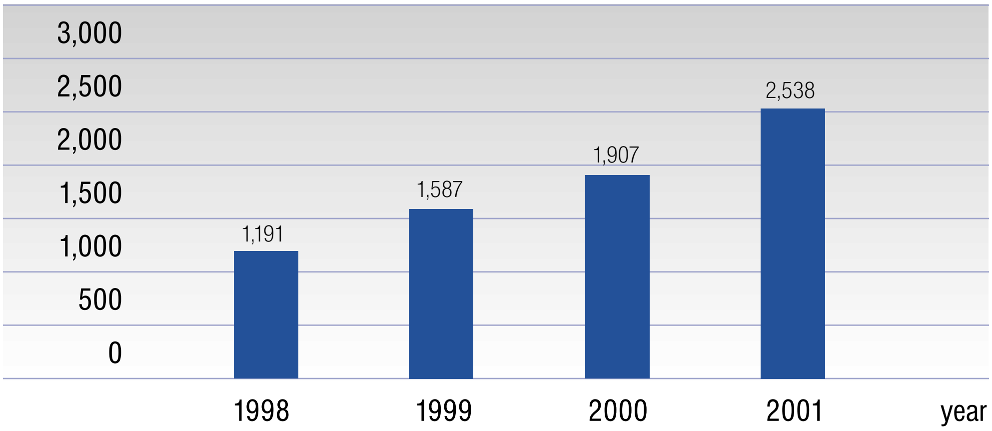
B.3. Data Services

Customer interest is primarily oriented towards solutions which satisfy their increasing communication demands, e.g. Internet access, development of private networks, securing domestic and international high-speed connections, and interconnection of telecom operators networks. From the viewpoint of economic indicators, the Leased Lines Service belongs to the most important in the data services portfolio of Slovenské telekomunikácie, a. s.

In the year 2001, thanks to greater convenience, high quality, and reliability offered by digital lines; almost a 30% increase was reported in the total amount of these lines. The leased telecommunications lines services reported an increase in revenues by 10.2%, despite the fact that, prices for leased lines in 2001 remained the same as in 2000.

Marketing and Sales

Digital line access



ST Frame Relay Service is ideal for the transmission of data traffic between LAN networks, with a guaranteed rate, which ranges from 8 kbps to 1,024 kbps. Compared to the previous year, a 166% increase in the number of installed access lines, and a 105% increase in the number of installed virtual lines was reported. The customers showed their interest, primarily, in comprehensive solutions of data communication.

Internet ST Online

In 2001 Slovenské telekomunikácie, a. s., strengthened its position on the Internet services market. The Internet ST Online service offers programs designed to fully satisfy the needs of various market segments. In the year 2001, the number of customers accesing the Internet network via the Internet ST Online service increased by more than 126%.

In January 2001, Slovenské telekomunikácie, a. s., reduced the prices of monthly fees for the Internet ST Online Service access via ISDN. This step was one of many steps that the Company made, which were aimed at sales support and Internet services penetration increase, mainly in the business segment.

In February 2001, Slovenské telekomunikácie, a. s., extended its supplementary services offer by a free of charge service which allowed for SMS notification on the received e-mail messages. By the end of 2001, this service was used by more than 25% of all Internet ST Online Service customers.

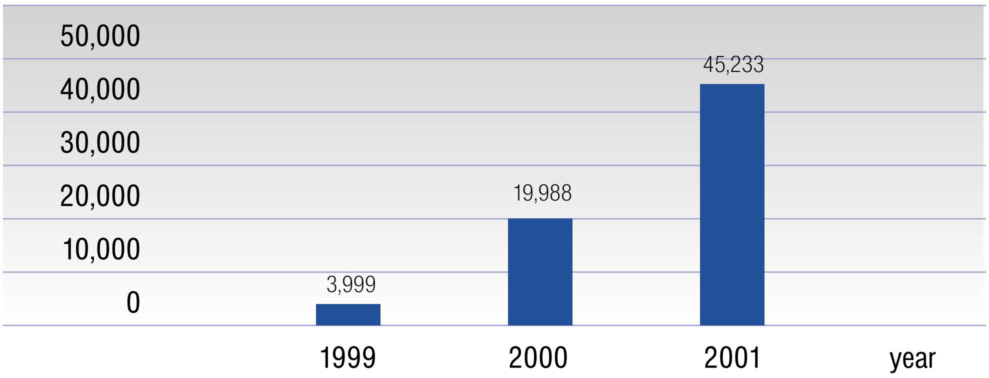
In May 2001, Slovenské telekomunikácie, a. s., cancelled the limitation of 30 hours in the program Profit. The capacity of the mailbox was increased to 10MB, as well as the web space capacity, with no price change. In October, the number of mailboxes within Kontakt Plus increased from 1 to 3, within Profit from 2 to 5; and within Profit Plus from 6 to 10.

In July and August of 2001, the Company temporarily cancelled Internet access limitation in the program addressing the residential sector. This enabled customers (mostly for students) to access information via the Internet during holidays at lower prices. To raise the sales of the service and the market share, in September 2001, the Company introduced a campaign which offered 3 months Internet access at the price of a monthly fee. The service could be for the first time ordered via the toll-free number 0800 123 456.

In the year 2001, the first phase of the Infovek project, which was designed for the whole of Slovakia, was implemented. Slovenské telekomunikácie, a. s., enabled nearly 150 schools to access the Internet at very favourable price

Marketing and Sales

ST Online Customers



conditions. The agreement for the Infovek II Project was signed at the end of 2001, under which connecting of other almost 390 schools is intended.

B.4. Services provided to telecommunications operators / wholesale

Since July 1, 2001, the Wholesale Department providing services to telecommunications operators was developed by transformation of Carrier Relations Subdepartment. This Department is responsible for providing services to the carriers and other licensed operators, interconnection with mobile operators and international carriers.

That was the reason for opening the positions of Key Account Managers within the Department who are responsible for individual key business fields, where they work with mobile operators, Internet and audiotex providers, alternative telecommunications operators, as well as with other licensed operators.

The Company activated the capacity at the level of 2.5Gbps within the TGN network that provides the interconnection with the academic Internet network for the project GEANT.

C. Mobile communication

Slovenské telekomunikácie, a. s., holds a 51% share in EuroTel Bratislava, a. s., which provides mobile telecommunications services and data networks. As of December 31, 2001, EuroTel Bratislava, a. s., reported more than 942,000 active customers.

TEAM WORK ORIENTATION

CUSTOMER ORIENTATION

TEAM WORK ORIENTATION

PERSONAL RESPONSIBILITY

MUTUAL RESPECT

CONTINUOUS IMPROVEMENT

We share information and work in efficient teams surpassing the organisation structure limits. Thus we can avoid duplicity in work, we may learn from each other and achieve better results. We know that team spirit motivates and inspires others.

In order to be more successful with our teams we always have in mind our responisibility.

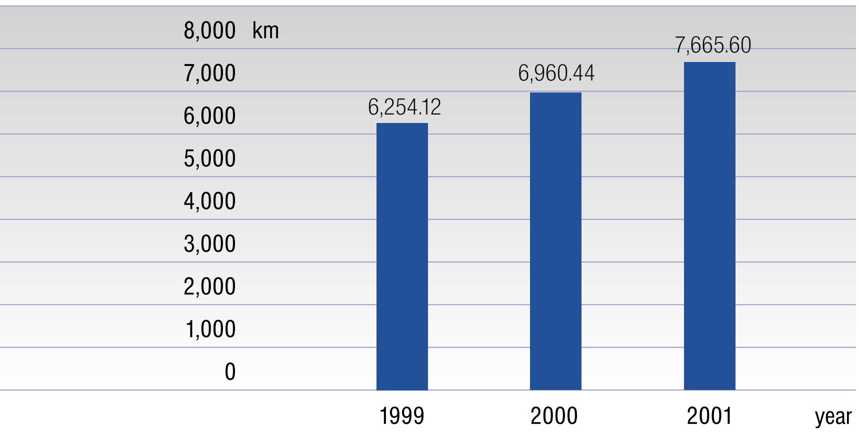
Network Infrastructure

Slovenské telekomunikácie, a.s., possess a high quality and the most extensive infrastructure in Slovakia.

The network infrastructure of Slovenské telekomunikácie, a. s., is not only used to provide the latest voice and data services, but is also a reliable connection with national mobile network operators, and top international telecommunications operators.

Great stress has consistently been put on the development of: scalability; quality of services provided; reliability; sufficient capacity; and manageability. These five basic factors contribute to the high performance level in 'carrier class' infrastructure operations.

Development of optical cables



Switching Network

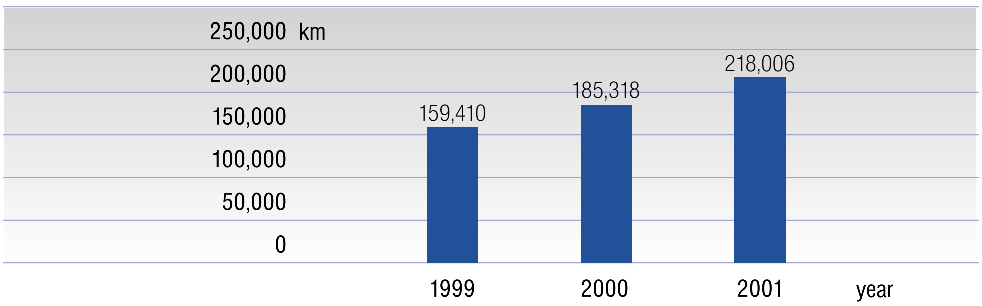
Facing the presumed increase in demands for ISDN network services and increased customer awareness, the top priority was given to improving selected technical conditions in ISDN service. More than 54,000 basic ISDN access (BRA) installations were deployed. The upgrade of technological conditions allowed more than a 380% increase in the number of active users. The total number of installations of ISDN primary rate access (PRA) had risen to 1,545 by the end of the year 2001.

If towards the end of the nineties, the construction of the switching network of Slovenské telekomunikácie, a. s., became one of the main priorities; primarily its transit part, i.e. the connection with important international operators, as well as national operators of mobile networks, then the year 2001 was definitely the year of the greatest strides towards increasing digitalization; improving the condition of the local switching network; and implementing the intelligent network platform. The number of newly deployed telephone lines topped the 120,000 mark. Digitalization rate exceeded 73%.

Access Network

Slovenské telekomunikácie, a. s., continued throughout the year 2001, as in previous years, to broaden and upgrade its

Development of fibre-kilometres



Network Infrastructure

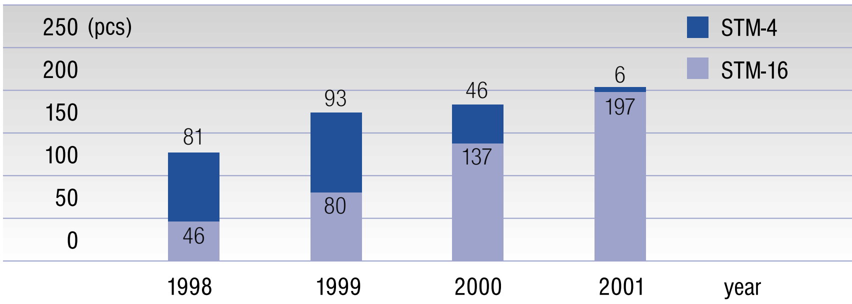
access network, mostly by introducing the so-called integrated access systems. During the year, the number of these systems reached a 66% increase over the year 2000. By the end of 2001, the total capacity had reached cca. 47,000 equivalent channels, a more than 145 % increase over the year 2000.

A prerequisite to the installation of this equipment was further extension of optical cable paths within the access network. The total length of the optical cables reached 612 km. The addition and upgrading of the metallic cable network continued as well. Its capacity reached 333,894 kmp in the year 2001. In the field of radio access, the number of radio networks was increased by 39 and the number of radio access points increased to cca. 11,500.

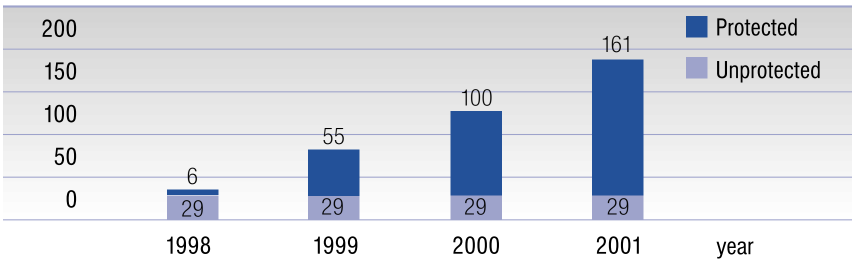
Transport Network

In the year 2001, as in previous years, the development of the transport network progressed hand in hand with the development of the other technologies, as well as in response to customer demand for an increase in transport capacities. The number of transport network nodes remained more or less stable throughout 2001. The priority fields targeted from the beginning were traffic protection and transmission capacity increase between nodes. The capacity of the transport network has grown significantly over the last couple of years. During the period from 1998 to 2001, it more than tripled. The use of 2.5 Gbit/s systems increased notably in comparison to 622 Mbit/s systems. In addition, traffic protection was reached by using technological equipment allowing protection of the whole traffic within a given segment, while at the same time, improving the efficiency in the installed transport capacity. The share of automated traffic protection on 2.5 Gbit/s systems almost doubled in the year 2001. In 2001, the length of new optical cable paths within the transport network reached 93 km. The projected incorporation of DWDM technology

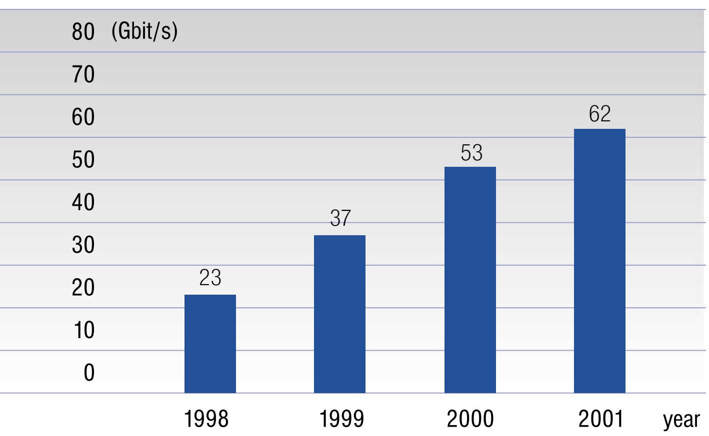
Number of 2.5Gbit/s and 622Mbit/s SDH systems



Development of automatic traffic protection of 2.5Gbit/s systems



Growing capacity for transport network



Network Infrastructure

into the network in the year 2002 was one of the major development decisions made in 2001.

of private customer networks showed an 80% growth rate, compared to the previous year.

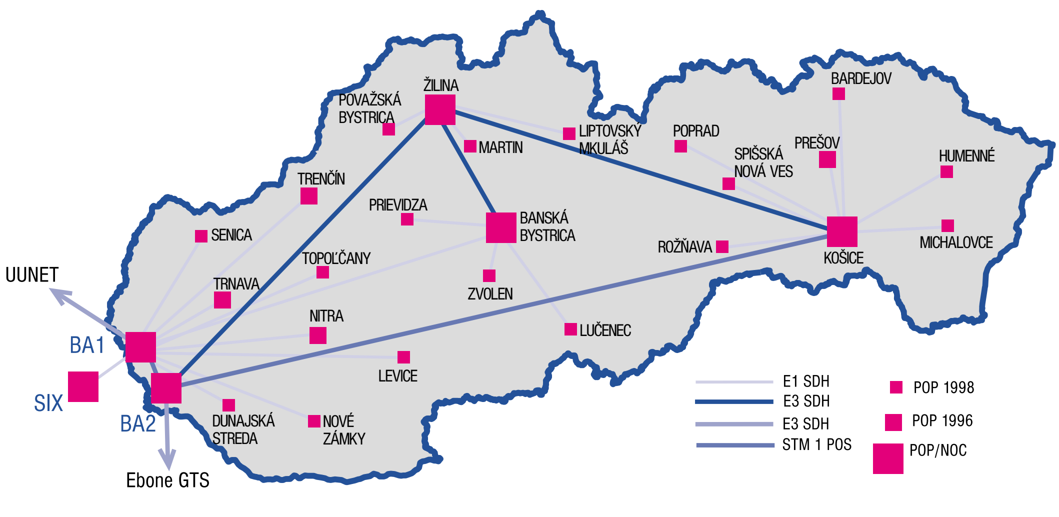
ST – WAN/VAN Network

ST – WAN/VAN Network (Wide area network/Value – added network) serves within the network infrastructure in Slovenské telekomunikácie, a. s., mostly as a platform facilitating the provision of data services for the end users. The ST – WAN/VAN Network, which consisted of total 234 nodes in the year 2001, is based on the backbone network formed by 34Mbit/s links. In the year 2001, the ST – WAN/VAN Network provided more than 2,000 digital leased lines. As for providing Frame Relay Services, almost 1,000 access circuits were provided. The total number

ST – IP Network

Four new access routers were installed in the central nodes of the ST – IP network in Bratislava, Banská Bystrica, and Košice. This step significantly upgraded the dial–up services, and the number of access ports increased by 5,700 new ones to the total of 9,500 ports. Another upgrade was carried out at a hardware server platform, supporting Internet services provided. New high power servers were incorporated into the network, making these services more reliable and available than they were in the previous years.

ST – IP network topology



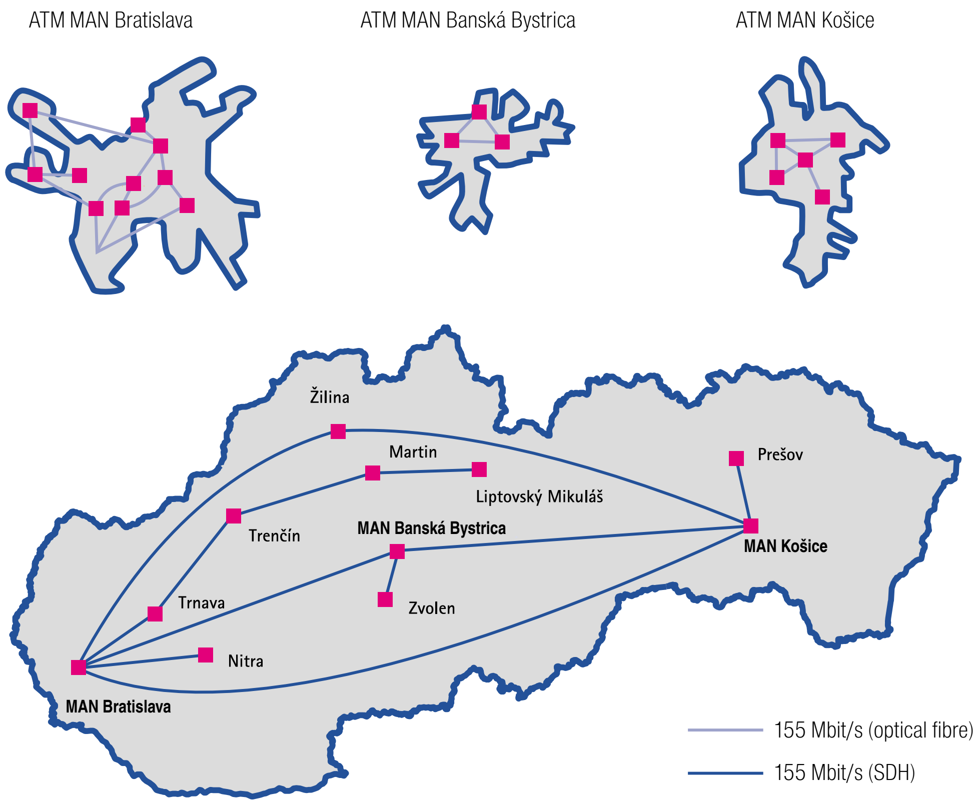
Network Infrastructure

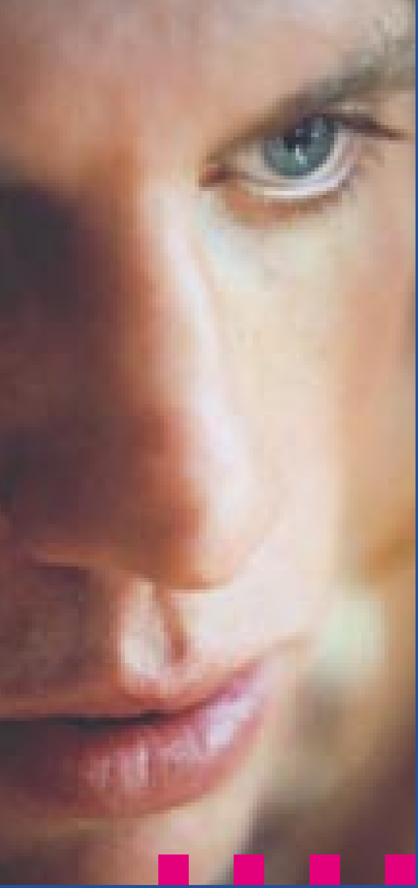
ST – ATM Network

From the viewpoint of the end customer, the ST – ATM Network currently consists of the STM –1, E3 and E1 ports designed for direct provision of ATM services, as well as the HSSI and E1 ports, designed for Frame Relay services and Ethernet ports 10BaseT or 10Base5 designed for LAN networks connection. The ST - ATM Network also includes E1 ports for circuit emulation, as well as ports for video services and for voice transmission over ATM (VoATM).

In international networks, the ST – ATM connections run on basis 2xSTM – 1 with Český Telekom and 1xSTM –1 with Telecom Austria.

ST – ATM network topology





PERSONAL RESPONSIBILITY

CUSTOMER ORIENTATION

TEAM WORK ORIENTATION

PERSONAL RESPONSIBILITY

MUTUAL RESPECT

CONTINUOUS IMPROVEMENT

We are proactive, committed and loyal to our company. We have the courage to make decisions and take responsibility for them. Our work is professional, efficient, targeted at results. Daily work transparency helps us resolve even unpleasant problems. Our managers lead the employees to be proactive and fully be involved in fulfilment of tasks and achieving excellent results.

Information Technologies

The IT Unit gives both the Slovenské telekomunikácie, a. s., customers and employees infrastructure and necessary knowledge through which it supports their growth, as well as a high quality fulfillment of the customers requests.

The thorough restructuring of Slovenské telekomunikácie, a. s., in the course of the year 2001 influenced the IT Unit in a major way. It was a breakthrough year for the IT organization primarily in the sense of restructuring, but also in the sense of demanding and challenging IT projects.

We introduced the “IT Factory” – a best practice process model, which the world leading IT organizations are using. During 2001 we have also managed the centralization of the IT Unit.

The introduction of several new IT projects within Slovenské telekomunikácie, a. s., challenged our skills even further. Implementation of the Customer Care & Billing Program (started in 2001); Data Center Centralization; Storage Area Networks and the Helpdesk Centralization are the biggest IT projects. Alongside the large ones, we have implemented a lot of smaller IT projects, which supported the endeavor of Slovenské telekomunikácie, a. s., in many ways.

The completed IT Unit reorganization and successful implementation of IT projects supports our Company's efforts to provide better service performance to our customers.

Customer Care & Billing Program

The Customer Care & Billing Program (CC&B) of Slovenské telekomunikácie, a. s., is one of the largest IT projects in Central and Eastern Europe. The CC&B Program implementation started in August 2001, whereas the 1st roll out was conducted in a record-breaking time of 3 months.

The IT architecture consists of three major components: an integrated Customer Relationship Management (CRM); a Billing Solution; and an Enterprise Application Integration (EAI) component. The first phase was rolled-out and will be enhanced by a cluster-server solution for reliability and best performance.

The CRM component has been implemented using the Siebel solution – the industry leader in CRM technology. It will enable Slovenské telekomunikácie, a. s., to manage our customer and partner relations much more effectively.

Geneva, a world leader in the billing area, provides us with an integrated billing solution. Convergent by design and highly flexible, Geneva will reduce the time to place new products and services to market and will achieve cost effectiveness through flexible configuration.

The integration of leading enterprise software applications was implemented by the innovative Vitria EAI solution. EAI enables a seamless integration of independent IT solutions into a single flexible framework with no performance barriers.

Along with the IT solutions implementations, there were also included the introduction of new internal processes to support better efficiency and customer orientation. We organized internal training for those taking part in the Slovenské telekomunikácie, a. s., transformation. The Customer Care program will continue in 2002 and its extension will bring, in addition, improvement in introducing new products.

Data Center centralization

Our customers require the availability of new Call centers. To achieve this, extensive changes were to be made in the technical infrastructure, upon which our Call centers are based. At the heart of these changes has been the centralization of the Slovenské telekomunikácie, a. s., Data Centers.

Reliability, security, and performance are the keywords when talking about Data Center services. The increasing demand for highly stable and versatile IT systems, in order to meet the rapidly changing conditions and challenges of the Slovak market, led to the decision to build centralized operation of application and Data Centers. Those centers will deliver high quality data services for the other Slovenské telekomunikácie, a. s., business units and external customers. In 2001 we started with the implementation of centralized Data Centers for new systems, with the goal to consolidate all operations in 2002.

Information Technologies

The Data Centers are built in two locations, connected by high-speed communications links. These links are able to deal with most emergency situations and also offer high levels of security. State-of-the-art technology, best-practice management procedures, and standardized equipment, combine to ensure maximum efficiency of our skilled IT staff and the highest levels of performance and security.

Storage Area Networks (SAN)

The growth of demand for data, and the increasing dependency of businesses on the data, have resulted in an increased demand for a robust and reliable storage solution within Slovenské telekomunikácie, a. s.

During 2001, we have implemented Storage Area Networks (SAN) in our data centers. This represents an IT solution that offers simplified storage management, flexibility, and improved data access and backup. It basically provides "storage on demand"; easily scalable and without the need for a complex configuration process. We have thus introduced technologies that enable us to manage, monitor, and protect information resources. By delivering the highest levels of availability and performance, the system guarantees our business being always one step ahead.

Centralized Helpdesk

To enable a constant improvement in the performance of Slovenské telekomunikácie, a. s., business units, the IT Unit has gradually changed a quality internal service provider. Our goal is to help our colleagues in other business units of Slovenské telekomunikácie, a. s., to make use of all capabilities that "IT world" offers.

To approach the business units in Slovenské telekomunikácie, a. s., even further, we have centralized the operations of our IT User Helpdesk. This common point of communication simplifies the communication of business units of Company with the highly skilled IT User Service staff; increasing thus service quality and services tracking options. It also allows us to better plan and align our IT User service resources.

MUTUAL RESPECT

CUSTOMER ORIENTATION

TEAM WORK ORIENTATION

PERSONAL RESPONSIBILITY

MUTUAL RESPECT

CONTINUOUS IMPROVEMENT

We are aware of cultural differences and differences among individuals, we accept them and want to overcome them. We acknowledge that people have diverse opinions and we are always open and sincere with them. We admit that one can make mistakes if he/she learns from them. This helps us trust each other and develop successful co-operation.

Human Resources

The Human Resources Unit represents one of the most important pillars in the operation of our Company.

Goals and aims in the year 2001

In order to reach our goal – to be the best telecommunications company in Slovakia – the Human Resources Unit focused in the year 2001, primarily at recruitment of motivated and professionally trained employees. It also aimed at the upgrading of management procedures; motivating and engaging employees; along with the developing of a fair remuneration and employees' care plan.

Recruitment

Within the restructuring and transformation of Slovenské telekomunikácie, a. s., from being a technical into a customer-oriented company, a lot of changes in organization have been made. Various new positions have been created. The Human Resource experts endeavored to fill the new positions, not only zeroing in on the external labor market (from which they hired more then 400 new employees), but also on the internal resources (which they used to fill almost 800 new positions). A system of "Job Fair" was developed for the internal employees, in order to increase the possibility of getting information on new working positions.

The Human Resources Unit created a system of "Assessment Centers" for the determination of employee potential development. This method is used primarily at the recruitment level for certain positions which are highly demanding in terms of managing people, or positions requiring direct contact with the customer. This method was mostly used in the recruiting of employees at the newly opened Call Center in Košice. It was also used in the selection of the managerial personnel in the Network Infrastructure Unit.

Cooperation with the universities

In the year 2001, Slovenské telekomunikácie, a. s., continued actively its program of cooperation with the universities. This cooperation was aimed at enhancing the university students' preparation in line with the telecommunications market development trends.

Personnel Development and Training

Increase of the educational and professional levels of our employees forms a pillar in the important change in Slovenské telekomunikácie, a. s., from a technically oriented, to a customer-oriented company. This also constitutes the reason why the Human Resources Unit has paid particular attention to the professional growth and development of employees' potential.

In the year 2001, the Company spent SKK 58,851,688 on training (i.e. almost SKK 5,000 per employee). In relation to the previous year, the costs showed an increase of SKK 1,000 per employee.

In the area of management development, 1,293 managers were trained to efficiently manage the changes in the process of the transformation and restructuring of the Company. This was in addition to the implementation of a new corporate culture; and the institution of a new management style throughout the Company.

A more complex development program was designed for the Marketing and Sales Unit staff. This program helped to enhance the quality of services provided and strengthen the customer orientation. Particular stress was placed on the particularities of individual sales channels. This program in the field of Marketing and Sales affected 1,678 employees.

The Human Resources Unit experts developed a software environment for "management and administration of distance learning" within the international program TEMPUS –TELEEDUCA. Five multimedia-training programs were designed within the framework of this program: English in Telecommunications, Multimedia telecommunications technologies; Information technologies; Telecommunications services; and Telecommunications legislation. These five programs consisted of 49 modules.

Human Resources

Mutual cooperation with Deutsche Telekom AG in the field of Human Resources Management and Development

Within the framework of international cooperation, the Human Resources representatives signed a “Memorandum of Understanding” between Slovenské telekomunikácie, a. s., and Deutsche Telekom AG. This Memorandum is successfully building on the mutual cooperation of both companies in the field of employee training.

The entrance of Slovenské telekomunikácie, a. s., into the “global team”, formed within the Deutsche Telekom Group, was an important milestone in the strengthening of the international cooperation in this field. The membership in this team enables our Company’s staff to participate in the development programs and training within the multinational teams. It also enables our Company to involve in the preparation and organization of such programs. In the year 2001, the Human Resources Unit conducted a weeklong workshop for the managers of Slovenské telekomunikácie, a. s., Deutsche Telekom AG, MATÁV, and Hrvatski Telekom. This workshop addressed managerial skills development, targeted the young managers of the future, in the telecommunications company.

Slovenské telekomunikácie, a. s., took part in the international project Human Resources (HR) SYNERGY. This project joins the companies within Deutsche Telekom Group in Central and Eastern Europe. The project goal is the enhancement of quality of Human Resources management and development processes; exchange of mutual experience; and the development of a sequence of unified procedures within the context of mutual respect for the particularities of the individual companies.

Culture Change Project

In the year 2001, the project “Culture Change“ was started under the supervision of the Human Resources Unit. Its goal was to develop an internal environment, which would be supportive of the strategic aims of our Company. Those aims were centered on a business orientation in the thinking and behavior of our employees; and the speeding up of the changes necessary in the preparation of the Company for market liberalization.

The management of Slovenské telekomunikácie, a. s., together with its employees designed a statement of vision, mission, and values for the Company.
The Human Resources Unit also elaborated on the Standards of customer behaviour and worked out a Code of Ethics of Slovenské telekomunikácie, a. s., employee. It also identified the key employees in the Company within the project, which was called, ”Key Players.”

The activity plan was aimed at four basic fields:

- Improvement of customer orientation
- Enhancement of management (business oriented thinking and behaviour for managers)
- Enhancement of employee motivation
- Development of a better internal communication.

Project: New remuneration policy and practice in Slovenské telekomunikácie, a. s.

The goal of this project was to prepare a new remuneration policy and remuneration structure in such a way, that it would be competitive and fair.

Within the first phase of this project, the Human Resources employees came up with a proposal for a new remuneration policy and pay structure for the three priority groups within our Company: Marketing and Sales; Network Infrastructure; and Information Technologies. The “second project phase” was focused on a proposal for a new remuneration policy; and a pay structure for the other positions in Slovenské telekomunikácie, a. s.

The results were summarized into four categories:
analysis of remuneration practice; drawing up a catalogue of job families groups; inner equity; and a proposal for a remuneration policy.

Human Resources

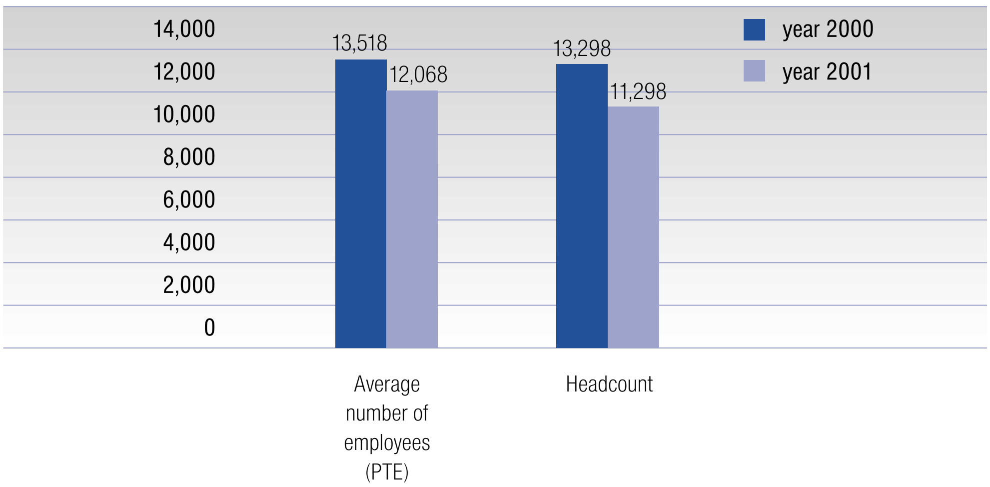
Project: Employment in Slovenské telekomunikácie, a. s.

The goal of this complex project was the management of a plan to reduce staff numbers at Slovenské telekomunikácie, a. s. It was aimed at upgrading the Company's operation; and providing an active help to the "redundant" employees. They were provided help in the form of re-qualification and professional counseling. They were also given the possibilities of using outplacement services, as well as actively finding companies that look for new employees. To fulfill such a demanding project, the Human Resources Unit cooperated closely with outplacement agencies; the Labour Office; other agencies acting in the labor market; and agencies offering re-qualification courses.

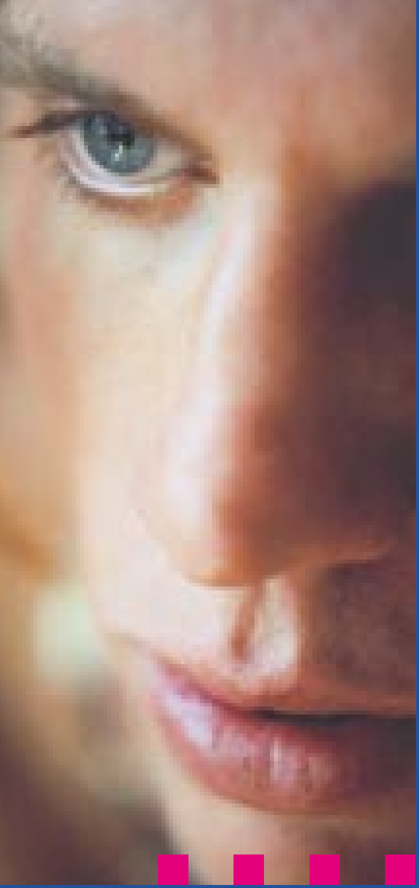
In the year 2001, Slovenské telekomunikácie, a. s., paid the redundant employees severance pays and compensations depending upon the seniority of the employee, from the amount of 7- up to 17-fold of their average pay. Almost half of these employees took advantage of a re-qualification possibility.
More than one fifth of the 2,121 employees, who left the Company in the year 2001, due to changes in organization, started a new career with a new employer during the same year. The others were assisted by the Human Resources Unit contact points employees in finding new jobs outside the Company, in close cooperation with personnel agencies.

During the year 2001, the working conditions of our employees were secured in accordance with the Corporate Collective Labor Agreement. This Agreement, along with others, stipulates a wide variety of social services, which are focused on and devoted to, employee health care and relaxation possibilities.

Number of employees in Slovenské telekomunikácie, a. s.



It is up to all of us
what structure we give the whole.



CONTINUOUS IMPROVEMENT

CUSTOMER ORIENTATION

TEAM WORK ORIENTATION

PERSONAL RESPONSIBILITY

MUTUAL RESPECT

CONTINUOUS IMPROVEMENT

We believe that by innovative thinking and acting we can win the leading market position. We are constantly trying to improve our work. In order to achieve this goal we enable our employees to grow both personally and professionally. Qualification enhancement has become an essential part of our work and we deem it indispensable for our overall success.

Financial statements for the year ended 31 December 2001

Prepared in accordance with International Accounting Standards

Contents

General information

These financial statements have been prepared by Slovenské telekomunikácie, a. s., ("the Company") for Slovenské telekomunikácie, a. s,. and its joint venture EuroTel Bratislava, a. s. The Company is incorporated as a joint stock company in the Slovak Republic. On August 4, 2000, Deutsche Telekom AG obtained control of the Company by acquisition of 51% of shares of Slovenské telekomunikácie, a. s. The transaction involved a purchase of existing shares from the Slovak Government as well as issuance of new shares. The Slovak Government retained 49% of shares in the Company.

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

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

Staff numbers

	2001 Number	2000 Number
Average staff numbers employed during the year	12,068	13,518

Registered office

The registered office of the Company is:

Námestie slobody 6
817 62 Bratislava
Slovak Republic

Ing. Ladislav Mikuš
Chief Executive Officer
and Member of the Board of Directors
28 February 2002

Income statement for the year ended 31 December

All amounts are in millions of Slovak crowns

	Notes	2001	2000
Revenue	13	**20,110**	18,370
Operating costs	14	**(16,036)**	(15,329)
Profit from operations		**4,074**	3,041
Financial income – net	15	**164**	(2,194)
Share of results of associates and joint ventures	2	**261**	(77)
Profit before tax		**4,499**	770
Taxation	16	**(577)**	(551)
Net profit		**3,922**	219

The financial statements on pages 38 to 57 were authorised for issue on behalf of the Board of Directors on 28 February 2002 by:

Ing. Štefan Bugár
Deputy Chairman
of the Board of Directors

Ing. Ladislav Mikuš
Chief Executive Officer
and Member of the Board of Directors

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

The notes on pages 42 to 57 form an integral part of these financial statements.

Balance sheet for the year ended 31 December

All amounts are in millions of Slovak crowns

	Notes	2001	2000
ASSETS			
Non-current assets			
Property, plant and equipment	1	43,226	42,694
Investments in associates and joint ventures	2	1,745	71
Investments held to maturity	3	737	756
Other non-current assets	2,4	-	1,559
Total non-current assets		45,708	45,080
Current assets			
Inventories	5	396	430
Receivables and prepayments	6	3,648	4,583
Cash and cash equivalents	7	12,512	8,556
Total current assets		16,556	13,569
Total assets		62,264	58,649
EQUITY AND LIABILITIES			
Share capital and reserves			
Share capital	8	26,028	26,028
Share premium	8	11,632	11,632
Statutory reserve fund	8	330	292
Retained earnings	8	7,096	3,321
Total share capital and reserves		45,086	41,273
Non-current liabilities			
Borrowings	9	6,470	7, 505
Deferred tax	10	4,413	5,188
Other payables	19	43	-
Provisions	12	99	-
Total non-current liabilities		11,025	12,693
Current liabilities			
Trade and other payables	11	5,542	3,791
Borrowings	9	259	572
Provisions	12	352	320
Total current liabilities		6,153	4,683
Total liabilities		17,178	17,376
Total equity and liabilities		62,264	58,649

The notes on pages 42 to 57 form an integral part of these financial statements.

Statement of changes in shareholders' equity

All amounts are in millions of Slovak crowns

	Notes	Share capital	Share premium	Statutory reserve fund	Retained earnings	Total Equity
Year ended 31 December 2000						
At 1 January 2000		20,718	-	130	3,264	24,112
Capital contribution						
on privatisation	8	5,310	11,632	-	-	16,942
Allocation to funds		-	-	162	(162)	-
Net profit for the year		-	-	-	219	219
At 31 December 2000		26,028	11,632	292	3,321	41,273
Year ended 31 December 2001						
At 1 January 2001						
- as previously reported		26,028	11,632	292	3,321	41,273
- effect of adopting IAS 39	19	-	-	-	(109)	(109)
- as restated		26,028	11,632	292	3,212	41,164
Allocation to funds		-	-	38	(38)	-
Net profit for the year		-	-	-	3,922	3,922
At 31 December 2001		**26,028**	**11,632**	**330**	**7,096**	**45,086**

The notes on pages 42 to 57 form an integral part of these financial statements.

Cashflow statement for the year ended 31 December

All amounts are in millions of Slovak crowns

	Notes	2001	2000
Net cash flows from operating activities	17	10,877	6,466
Cash flows from investing activities			
Loans made to joint venture		-	(314)
Capital contributions to associate		-	(419)
Proceeds from the disposal of associate		2	728
Purchase of property, plant and equipment		(5,745)	(4,934)
Proceeds from sale of property, plant and equipment		48	6
Purchase of non-current investments		-	(81)
Proceeds from sale of non-current investments		85	6
Interest received		578	632
Net cash used in investing activities		(5,032)	(4,376)
Cash flows from financing activities			
Proceeds from long-term borrowings		439	1,633
Capital contribution on privatisation	8	-	16,942
Repayment of loans		(1,457)	(13,931)
Payment of finance lease liabilities		(96)	(56)
Interest paid		(775)	(1,643)
Net cash from financing activities		(1,889)	2,945
Net increase in cash and cash equivalents		3,956	5,035
Cash and cash equivalents at 1 January		8,556	3,521
Cash and cash equivalents at 31 December		12,512	8,556

The notes on pages 42 to 57 form an integral part of these financial statements.

Accounting policies

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

(a) Basis of preparation

These financial statements have been prepared in accordance with and comply with International Accounting Standards ("IAS") by Slovenské telekomunikácie, a.s. ("the Company"). The financial statements have been prepared under the historical cost convention.

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

In 2001 the Company adopted IAS 39 – Financial Instruments: Recognition and Measurement. The effect of adopting this standard is summarised in statement of changes in shareholders' equity and further information is disclosed in accounting policies (e) Investments and (r) Financial instruments and in Note 19.

(b) Accounting for associated undertakings and joint ventures

Investments in associates and jointly controlled entities are accounted for by the equity method of accounting. Jointly controlled entities are those in which the Company shares control of the operations with its joint venture partners. Associate undertakings are those undertakings in which the Company has a significant but not a controlling interest.

Equity accounting involves recognising in the income statement the Company's share of the associates' or joint ventures' profit or loss for the year. The Company'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 Company and its associates and jointly controlled entities are eliminated to the extent of the Company's interest in such entities; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Equity accounting is discontinued when the carrying amount of the investment in an associated undertaking reaches zero, unless the Company has incurred obligations or guaranteed obligations in respect of the associated undertaking.

Further details about Company's associates and joint ventures are provided in Note 2.

(c) Property, plant and equipment

(i) Cost
All fixed assets, other than land, are carried at cost less accumulated depreciation. Land is stated at values attributed to it in the legislation, which transferred ownership to the Company. All new purchased land is carried at acquisition cost.

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

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

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

Items that are retired or otherwise disposed of are eliminated from the balance sheet, along with the corresponding accumulated depreciation. Any gain or loss resulting from such retirement or disposal is included in other operating costs. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

(ii) Depreciation

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

Freehold buildings	25 to 50 years
Duct, cable and other outside plant	30 years
Exchange equipment and related equipment	4 to 13 years
Radio and television equipment	8 to 30 years
Computer software	3 years
Other fixed assets	6 to 25 years

No depreciation is provided on freehold land.

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.

During 2001, the management undertook a review of certain fixed assets in connection with an update of plans for network development. The review resulted in change of economic useful life of analogue and digital exchanges, software and certain buildings. The changed economic useful life and, therefore, the depreciation rate is adjusted for the current and future periods. Where the carrying amount of an asset is greater than its recoverable amount, it is written down immediately to its recoverable amount.

Prior to 1 January 1994, the Company's fixed asset registers were maintained in accordance with Slovak tax legislation and therefore in order to calculate the accumulated depreciation, estimates have been made using the above useful economic lives. The estimated difference at 31 December 2001 reduced the accumulated depreciation balance by Sk 1.1 billion (2000: Sk 1.3 billion) from the values shown in the fixed asset records.

(d) Leased assets

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

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

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

(e) Investments

At 1 January 2001 the Company adopted IAS 39 and classified its investments into following categories: held-to-maturity, available-for-sale and trading investments. Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale, these are included in non-current assets unless management has the expressed intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Investments that are acquired principally for the purpose of generating a profit from short term fluctuations in price are classified as trading investments. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

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

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

Prior to the adoption of IAS 39 the Company had recorded its investments at cost adjusted to amortise any discount or premium over the term of the investments. Investments denominated in foreign currency were retranslated at the rates of exchange prevailing on the balance sheet date. On the adoption of IAS 39 at January 2001 these amounts were classified as shown in Note 19.

(f) Inventories

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

(g) Trade receivables

Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a regular review of all outstanding amounts. Bad debts are written off during the year in which they are identified.

(h) Cash and cash equivalents

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

(i) Borrowings

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

(j) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable than an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company 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 comprise employee termination payments, and are recognised in the period in which the Company becomes legally or constructively committed to payment. Employee termination benefits are recognised only after either an agreement is in place with the appropriate employee representatives specifying the terms of redundancy and the numbers of employees affected, or after in-

dividual employees have been advised of the specific terms. Costs related to the ongoing activities of the Company are not provided in advance.

Onerous contracts
The company recognises a provision for onerous contract when the expected benefits to be derived from the contract are less than the unavoidable costs of meeting the obligation under the contract.

(k) Revenue recognition

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

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

Revenues and costs are shown gross in these financial statements. Amounts payable to and receivable from the same operators are shown net in the balance sheet when a right of set-off exists.

(l) Operating costs

Operating costs are charged in the accounting period to which they relate.

(m) Advertising costs

Advertising costs are charged to expense as incurred.

(n) Foreign currency translation

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

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

(o) Deferred income taxes

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

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

(p) Social security and pension schemes

The Company makes contributions to the Government's health, retirement benefit and unemployment schemes at the statutory rates in force during the year, based on gross salary payments. Throughout the year, the Company made contributions amounting to 38% (2000: 38%) of gross salaries up to a monthly salary between Sk 24,000 to Sk 32,000 to such schemes, together with contributions by employees of a further 12.8% (2000: 12%). The cost of these payments is charged to the income statement in the same period as the related salary cost.

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

(r) Employee benefits

In accordance with an annually renegotiated collective labour agreement, the Company is required to pay on retirement an amount of between Sk 24,000 and Sk 70,000 depending on the length of service, starting with at least five years continuous service. These benefits are restricted to those employees who retire during the period for which the labour agreement is in place. The Company is not under a legal or constructive obligation to continue providing such benefits beyond the period of such agreement and therefore no provisions beyond the period of the agreement are recognised in these financial statements.

(s) Financial instruments

Financial instruments carried on balance sheet include cash, bank balances, investments, receivables, trade creditors, leases and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

The Company adopted IAS 39 – Financial instruments: Recognition and Measurement at 1 January 2001. The financial effects of adopting IAS 39 is shown in Note 19. Information about accounting for derivative financial instruments and hedging activities is included in section "Financial risk management."

(t) Comparatives

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

Financial risk management

(1) Financial risk factors

The Company's activities expose it to a variety of financial risks, including the effects of: changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Company'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 Company. The Company uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain exposures.

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

(i) Foreign exchange risk

The Company 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 of which 100% are hedged. The Company hedges the foreign currency exposure of its contract commitments to purchase certain production parts mainly from Germany and Austria. The Company uses foreign currency deposits, investments, forward contracts and foreign currency swaps to hedge its exposure to foreign currency risk in the local reporting currency.

(ii) Interest rate risk

The Company's income and operating cash flows are substantially independent of changes in market interest rates. The Company policy is to maintain approximately 70% of its borrowings in fixed rate instruments. At the year end 2001 88% was at fixed rates. The company uses interest rate swaps to optimise the portion of fixed to float interest rate ratio based on current market conditions with the aim to reach 70% ratio. Under the interest rate swaps, the Company agrees with other parties to exchange, at specified intervals (mainly semiannually), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

(iii) Credit risk

Credit risk management is of high importance due to significant cash holdings arising from capital increase and positive cash flows. The credit risk policy defines products, maturities of products and limits for financial counter-party. The Company keeps limit of credit exposure to any financial institution. These limits are reviewed on regular basis.

(2) Accounting for derivative financial instruments and hedging activities

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

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

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

The Company does not have any fair value hedges at 31 December 2001.

The Group does not have any cash flow hedges at 31 December 2001.

Certain derivative transactions, which provide effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting under the rules in IAS 39. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IAS 39 are recognised immediately in the income statement. The fair value is periodically reviewed and any change in fair value is transferred to the income statement. Upon adoption of IAS 39 at 1 January 2001 the fair value of derivatives is recognised in retained earnings.

When a hedging instrument expires or is sold, or when 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 recognised, when the committed or forecasted transaction ultimately is recognised in the income statement. However, if a committed or forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

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

(3) Fair value estimation

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

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

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

1 Property, plant and equipment

	Land and buildings	Duct, cable and other outside plant	Telephone exchanges and related equipment	Radio and trans-mission equipment	Other fixed Assets	Capital work in progress including advances (CIP)	Total
At 1 January 2001							
Cost	6,542	22,341	31,128	4,410	5,248	1,899	71,568
Accumulated depreciation	(1,392)	(7,211)	(14,991)	(2,810)	(2,144)	(326)	(28,874)
Net book value	5,150	15,130	16,137	1,600	3,104	1,573	42,694
Opening net book amount	5,150	15,130	16,137	1,600	3,104	1,573	42,694
Additions	-	-	-	-	-	6,070	6,070
Transfer from CIP	669	2,501	2,930	200	882	(7,182)	-
Disposals	(6)	(23)	(5)	(1)	(46)	-	(81)
Reclassifications	-	3	614	82	(699)	-	-
Depreciation charge (Note 14)	(175)	(704)	(3,228)	(349)	(943)	(58)	(5,457)
Closing net book value	5,638	16,907	16,448	1,532	2,298	403	43,226
At 31 December 2001							
Cost	7,301	24,665	32,917	4,510	5,908	461	75,762
Accumulated depreciation	(1,663)	(7,758)	(16,469)	(2,978)	(3,610)	(58)	(32,536)
Net book value	5,638	16,907	16,448	1,532	2,298	403	43,226

During 2001, the Company reclassified certain fixed assets in connection with a classification review undertaken as part of the utilisation of new management information system.

During 2001, the management undertook a review of certain fixed assets in connection with an update of plans for network development. The review resulted in:

(i) change of economic useful life of analogue and digital exchanges. The analogue exchanges are depreciated over remaining economic useful life up to 4 years. The economic useful life of digital exchanges was changed from 20 years to 13 years. The additional depreciation of Sk 613 million is included in total depreciation charge (Note 14);

(ii) change of economic useful life of software and written down of certain buildings. The additional depreciation of Sk 298 million is included in total depreciation charge (Note 14).

The Company will continue to conduct such reviews.

Assets subject to finance leases with a net book value of Sk 163 million (2000: Sk 303 million) are included in "other fixed assets".

Borrowing costs in the year of Sk 2 million (2000: Sk 20 million) were capitalised during the year and are included in “additions”.

No land or buildings were pledged as collateral as of 31 December 2001 and 2000.

2 Investments in associates and joint ventures

	Joint venture	Other associates	Total
At 1 January 2001			
Cost	120	4	124
Share of profit (loss)	(53)	-	(53)
Opening net book value	67	4	71
Additions	1,521	-	1,521
Disposals	-	(4)	(4)
Share of profit (loss)	261	-	261
Share of income tax (Note 16)	(104)	-	(104)
Closing net book value	**1,745**	**-**	**1,745**
At 31 December 2001			
Cost	1,641	-	1,641
Share of profit (loss)	104	-	104
Closing net book value	**1,745**	**-**	**1,745**

On 22 March 2001 shareholders of EuroTel Bratislava, a.s. (EuroTel) approved an increase of share capital by capitalising shareholder loans and interest accrued thereon through 31 December 2000 of Sk 1,521 million provided to EuroTel in previous years (Note 4).

Details of the Company's associated company and joint venture are given below.

	Country of incorporation	Interest in capital %	Activities
Associated company			
Telemont Slovakia, s.r.o.	Slovakia	100% (2000: -)	Dormant
Joint venture			
EuroTel Bratislava a.s.	Slovakia	53% (2000: 60%)	Wireless telephony services

Control of EuroTel is shared between the Company and Atlantic West B.V. and hence this investment is considered a joint venture. Neither party has unilateral control over major decisions affecting the joint venture. Pursuant to EuroTel's Shareholders Agreement, the Company has a 51% interest in the profits and net assets of the joint venture. The following amounts represent the Company's share of the assets and liabilities and revenue and expenses of the joint venture.

	2001	2000
Non-current assets	3,197	3,309
Current assets	3,058	3,111
	6,255	6,420
Non-current liabilities	(3,389)	(5,511)
Current liabilities	(1,036)	(758)
	(4,425)	(6,269)
Net assets	1,830	151
Sales	3,891	3,061
Income before tax	261	(416)
Income taxes	(104)	127
Profit after tax	157	(289)
Proportionate interest in joint venture commitments	158	336

The average number of employees in the joint venture in 2001 was 923 (2000: 815).

3 Investments held to maturity

	2001	2000
Debt securities	737	756

Debt securities amounting to Sk 737 million (2000: Sk 743 million) are U.S. Dollar, Euro and SKK denominated Slovak Government or Slovak Government guaranteed bonds maturing in one to two years from 31 December 2001. The bonds pay interest at a fixed rate of 8.92% to 12.0% and were purchased at a premium ranging from 0.5% to 4.9% to their nominal value.

Maturity of bonds is as follows:	2001	2000
2001	-	13
2002	385	400
2003	352	343
	737	756
Weighted average of interest earned	9,39%	9,44%

4 Other non-current assets

	2001	2000
Subordinated loans to joint venture	-	1,559

In March 2001 the shareholder loan to EuroTel was capitalized as equity (Note 2).

5 Inventories

	2001	2000
Cable	83	85
Engineering	283	235
Other	30	110
	396	430

The inventory items are shown after slow-moving provision of Sk 214 million (2000: Sk 237 million).

6 Receivables and prepayments

	2001	2000
Domestic trade receivables	1,823	2,573
Foreign trade receivables	1,089	639
Amounts owed by related parties (Note 20)	369	79
Income tax receivable	-	1,078
Other receivables	298	153
Prepayment	69	61
	3,648	4,583

All receivables fall due within one year. Trade accounts receivable are shown after a provision for bad and doubtful accounts of Sk 1,074 million (2000: Sk 1,196 million).

7 Cash and cash equivalents

The cash balance of the Company at 31 December 2001 includes Sk 12,199 million (2000: Sk 8,333 million) held in interest-bearing deposits on terms of less than three months. There was no cash balance with restricted use as at 31 December 2001 and 2000.

8 Capital and reserves

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

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

As of 31 December 2001 the Company had authorised 26,027,500 ordinary shares (2000: 26,027,500) with a par value of Sk 1,000 per share. All issued shares were fully paid.

The legal reserve is set up in accordance with Slovak law and is not distributable. The reserve is created from retained earnings to cover possible future losses. Amount transfers of at least 5% have to be made from current year profits until the reserve is equal to at least 20% of share capital.

9 Interest bearing borrowings

	2001	2000
International Financial Institution loans	6,663	7,650
Foreign supplier loans	-	280
Finance lease obligations	66	147
Total interest bearing borrowings	6,729	8,077
Current portion of interest bearing borrowings	(259)	(572)
Long term portion of interest bearing borrowings	6,470	7,505
Repayments of the long term portion of interest bearing borrowings fall due as follows:		
Between one and two years	781	531
Between two and five years	2,223	2,481
After five years	3,466	4,493
	6,470	7,505

Loans from the World Bank and the European Investment Bank (together the “IFI’s”), are subject to restrictive covenants which require the Company to achieve minimum ratios in respect of financial leverage, interest cover and debt service based on the IAS financial statements. The IFI facilities are guaranteed by the Slovak Government.

As of 31 December 2001 and 2000, there are no assets pledged as collateral for borrowings.

Supplier loans guaranteed by the Slovak Government were repaid in 2001.

At 31 December 2001, the Company has total undrawn loan facilities available of Sk 502 million (2000: Sk 444 million).

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

	2001	2000
Carrying amount	6,729	8,077
Fair value	6,906	7,690

Interest bearing borrowings can be analysed by currency as follows, after taking into account the impact of the cross currency interest rate swaps outstanding at 31 December 2001:

	2001	2000
Euro and Euro member currencies	4,882	3,760
U. S. Dollars	-	939
Slovak crowns	1,847	3,367
Other	-	11
	6,729	8,077

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

Interest bearing borrowings can be analysed into fixed rate and variable rate debt as follows, after taking into account the impact of the cross currency interest rate swaps and interest rate swaps outstanding at 31 December 2001:

	2001	2000
Fixed	5,962	8,308
Floating	767	(231)
	6,729	8,077

The average effective borrowings cost (total interest payable and other charges for Company's loans and borrowings) for the year ended 31 December 2001 were 6.4% (2000: 7.9%).

10 Deferred tax

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

	2001	2000
At beginning of year	5,188	4,570
Effect of applying IAS 39 at 1 January 2001 (Note19)	(45)	-
Capitalised loan to EuroTel (Note 2)	(39)	-
Impact of change in the tax rate from 29% to 25% (Note 16)	(706)	-
Charge to income for the year	15	618
At end of year	4,413	5,188

The principal temporary differences arise from depreciation on property, plant and equipment and unrealised foreign exchange gains and losses.

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

	31 December 2000	Impact to retained earnings	Credited/ charged to income	31December 2001
Accelerated tax depreciation	5,537	-	(801)	4,736
Unrealised foreign exchange gains/losses	(316)	(39)	153	(202)
Restructuring (Note 12)	(26)	-	(31)	(57)
Fair value of swaps (Note 19)	-	(45)	31	(14)
Onerous contract (Note 12)	-	-	(54)	(54)
Leasing	18	-	(7)	11
Unpaid cash-hand services	(25)	-	18	(7)
Net deferred tax (asset) liability	5,188	(84)	(691)	4,413

	2001	2000
Deferred tax assets to be recovered after more than one year	(214)	(205)
Deferred tax liabilities to be settled after more than one year	4,656	5,509
	4,442	5,304

11 Trade and other payables

	2001	2000
Amounts due within one year		
Domestic trade payables	2,201	1,772
Foreign trade payables	715	936
Amounts due to employees	403	439
Payables to related parties (Note 20)	326	179
Income tax payable	1,066	-
Accruals and other payables	658	465
Fair value of swaps	173	-
	5,542	3,791

12 Provisions

	Restructuring	Onerous contract	2001 Total	2000
Opening carrying amount	320	-	320	-
Additional provisions (Note 14)	343	213	556	320
Amount used	(425)	-	(425)	-
Closing carrying amount	238	213	451	320
Non -current liabilities	-	99	99	-
Current liabilities	238	114	352	320
	238	213	451	320

The restructuring of the Company's operations will result in the loss of 1,034 jobs in 2002. An agreement has been reached with the local union representatives based on a detailed formal plan that specifies the number of staff involved, location an function and quantifies the amounts payable to those made redundant. The full amount of these costs estimated to be incurred has been recognised in the current period. The termination benefits are expected to be paid within the 12 months from 31 December 2001.

The company has signed a business contract for rent of satellite transponders, which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The contract expires in 2011.

13 Revenues

Reporting by products	2001	2000
Fixed line		
Access fees	3,450	2,231
Traffic charges	10,750	10,969
Carrier Service	2,522	2,002
Data Service	1,800	1,673
Broadcasting	625	658
Terminal equipment	352	264
ST-Online / IP	142	70
Other	469	503
	20,110	18,370

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

Revenues for the year ended 31 December 2001 include Sk 756 million of revenues from the joint-venture company (2000: Sk 677 million). Revenue from international operators in 2001 includes Sk 524 million from other related parties (2000: Sk 121 million).

Notes to the financial statements

14 Operating costs

	2001	2000
Staff costs	4,000	3,962
Material and equipment	1,395	1,541
Depreciation (Note 1)	5,457	5,160
Network operators	3,644	3,116
Energy costs	344	315
Repairs and maintenance	388	494
Legal and consulting fees	339	155
Rental of satellites and cables	69	43
Value added services	98	90
Foreign exchange differences (net)	(7)	80
Provision for restructuring costs (Note 12)	343	320
Provision for onerous contract (Note 12)	213	-
Provision for bad and doubtful debts and write offs	130	197
Other costs	1,821	1,870
	18,234	17,343
Own work capitalised	(2,198)	(2,014)
	16,036	15,329

Costs for network operators services include Sk 1,108 million (2000: Sk 811 million) of costs incurred to the joint-venture and costs to international network operators of Sk 397 million incurred to other related parties (2000: Sk 101 million).

Staff costs include Sk 542 million (2000: Sk 567 million) of contributions to social security scheme and Sk 5 million (2000: Sk 12 million) of remuneration of directors.

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

15 Financial income - net

	2001	2000
Interest expense		
International Financial Institutions loans	(379)	(563)
Revolving credit loan	-	(527)
Foreign supplier loans	(16)	(24)
Interest payable arising on interest rate swaps	(287)	(269)
Finance leases	(16)	(19)
Commitment fees and other financial expense	(56)	(159)
Net foreign exchange losses	(72)	(1 334)
Total interest payable and other charges	(826)	(2,895)
Borrowing costs capitalised	2	20
Borrowing expense total	(824)	(2,875)
Change in Fair-value and settlement impact of swaps (Note 19)	245	-
Interest income on short term deposits	676	648
Interest income from debt securities held	67	33
Net financial income (expense)	164	(2,194)

16 Taxation

	2001	2000
Current tax charge	1,164	62
Deferred tax (income) charge (Note 10)	(691)	617
Share of income tax of joint venture (Note 2)	5	9
Share of deferred tax of joint venture (Note 2)	99	(137)
	577	551

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

	2001	2000
Net profit before tax	4,499	770
Income tax calculated at 29% (2000 - 29%)	1,305	223
Change in tax rate – deferred tax effect (Note 10)	(706)	-
Effect of income not taxable	(269)	(156)
Effect of expenses not deductible for tax purposes	253	484
Over-provision in respect of previous years	(6)	-
	577	551

On 4 December 2001 a new Slovak Corporation tax rate of 25% (previously 29%) was enacted effective from 1 January 2002.

17 Net cash flows from operating activities

	2001	2000
Net profit	3,922	219
Adjustments for:		
Income tax	577	551
Depreciation (Note 1,14)	5,457	5,160
Investment income (Note 15)	(67)	(33)
Interest (income) expense	(173)	893
Share of results of associates and joint ventures (Note 2)	(261)	77
(Profit)/loss on disposals on fixed assets	35	88
Net foreign exchange losses	72	1,465
Provision charge (Note 12)	131	320
Operating profit before working capital changes	9,693	8,740
(Decrease) in trade and other receivables	(278)	(738)
Decrease (increase) in inventories	34	(49)
Increase in trade and other payables	350	552
Cash generated from operations	9,799	8,505
Income taxes received (paid)	1,078	(2,039)
Net cash flows from operating activities	10,877	6,466

18 Commitments

Capital commitments

The Company had the following capital commitments:

	2001	2000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	959	800

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

19 Financial instruments

The Company has adopted IAS 39 at 1 January 2001; the impact on shareholders' equity as at 1 January 2001 is shown below. In accordance with IAS 39 the comparative financial statements for the year ended 31 December 2000 are not restated.

Summary of impact of adopting IAS 39 at 1 January 2001 and movements during the year ended 31 December 2001.

	Cross currency swap	Interest rate swap	Total
At 1 January 2001			
Fair value	472	(11)	461
Deferred income tax (Note 10)	(84)	39	(45)
	388	28	416
Less carrying amount	(183)	(124)	(307)
Impact on retained earnings at 1 Jan. 2001	205	(96)	109
Movements during the year:			
Settlement of swaps (Note 15)	(262)	-	(262)
Change in fair value (Note 15)	11	6	17
Deferred income tax (Note 10)	52	(21)	31
Net balance at 31 December 2001	189	13	202
Non current liabilities	43	-	43
Current liabilities (Note 11)	178	(5)	173
Deferred income tax (Note 10)	(32)	18	(14)
Net balance at 31 December 2001	189	13	202

Upon the adoption of IAS 39 the Company recognised the above derivatives non-qualified for hedge accounting and measured them at fair value. The Company recorded a net loss adjusted by deferred income tax of Sk 109 million to recognise difference between the carrying values and fair values of these derivatives at 1 January 2001.

Interest rate swaps

The Company has entered into interest rate swap contracts that entitle it to receive interest at fixed rate on notional principal amounts and oblige it to pay interest at floating rates on the same amount which equals the outstanding balance of interest bearing borrowing.

At 31 December 2001 open interest rate swap agreements amounted to EUR 45,338 million with interest rates between 6M EURIBOR to 4,94% applied. Interest rate swaps mature in 2002.

Cross currency swaps

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

At 31 December 2001 the outstanding principal amounts payable by the Company under cross currency interest rate swaps were Sk 1,781 million and EUR 46 million. Cross currency interest rate swaps mature in 2002, 2003 and 2010.

20 Related party transactions

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

The Company receives revenues from and pays expenses to its joint venture EuroTel and to its parent company Deutsche Telekom AG and its subsidiaries, associates and joint ventures, for calls which access each others network and other services. These revenues and costs are based on contractual agreements negotiated on normal commercial terms.

	Receivables		Payables		Revenues		Expenses	
	2001	2000	2001	2000	2001	2000	2001	2000
EuroTel	66	1,617	68	111	756	677	974	811
Deutsche Telecom	258	96	222	131	363	3	436	-
Other	45	50	36	27	161	118	106	101
Directors	-	-	-	-	-	-	5	12
Total	369	1,763	326	269	1,280	798	1,521	924

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

21 Contingencies

The Company is in legal proceedings in the normal course of business including an alleged breach of contract and associated claims regarding the publication of telephone directories. Based on the relevant court decision from January 2002, management has a clear opinion, that there is no basis in fact or law or other reason to support such claims and that, while the subject of uncertainty, the probability of loss with regard to such claims is remote.

The Company's joint venture EuroTel is in legal proceedings in the normal course of business including two administrative proceedings initiated by the Anti-Monopoly Office of the Slovak Republic based on a petition of a Voice over IP technology operator alleging breach of antimonopoly law. The outcome of the proceedings is subject to a certain degree of uncertainty due to the anti-monopoly law in Slovakia being in early stage of development and subject to varying interpretations. Management does not believe that the outcome will have a material adverse effect on EuroTel's financial conditions, results of operations or cash flows.

Report of the auditors

We have audited the accompanying balance sheet of Slovenské telekomunikácie, a.s. ("the Company") as at 31 December 2001, and the related statements of income, cash flows and changes in shareholder's equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2001, and of the results of its operations, cash flows and changes in shareholder's equity for the year then ended in accordance with International Accounting Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers

Bratislava, Slovak Republic

28 February 2002

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