Annual Report

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Annual Report 2002

Annual Report 2002

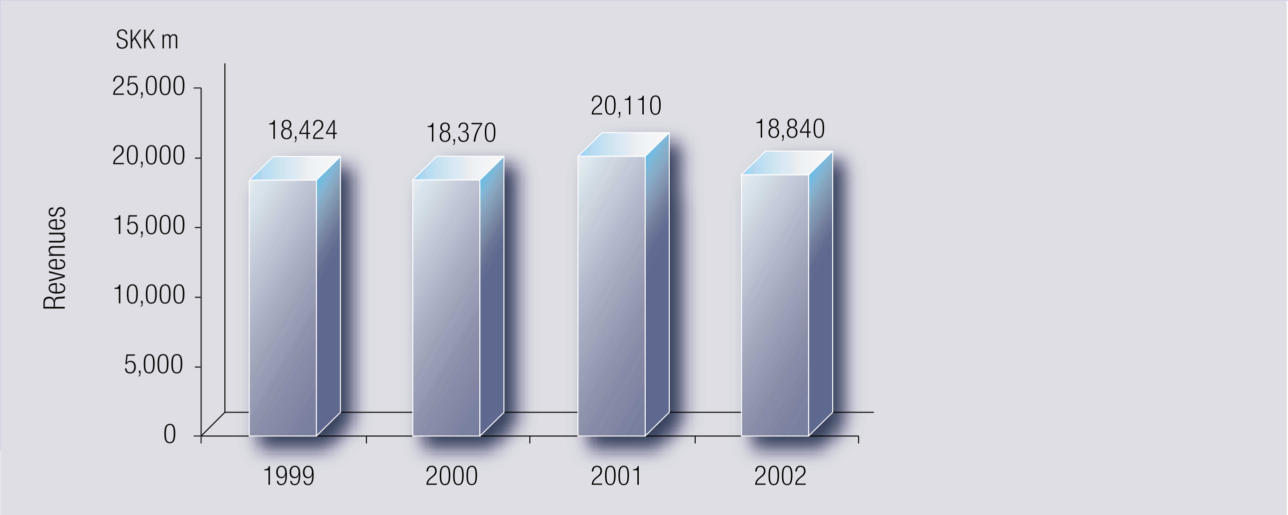
2002
Annual Report

A Year of Innovations and Modernisation
A Year of the Customer
A Year of Financial Stability
A Year of Change
A Year of Team Work
A Year of Social Responsibility

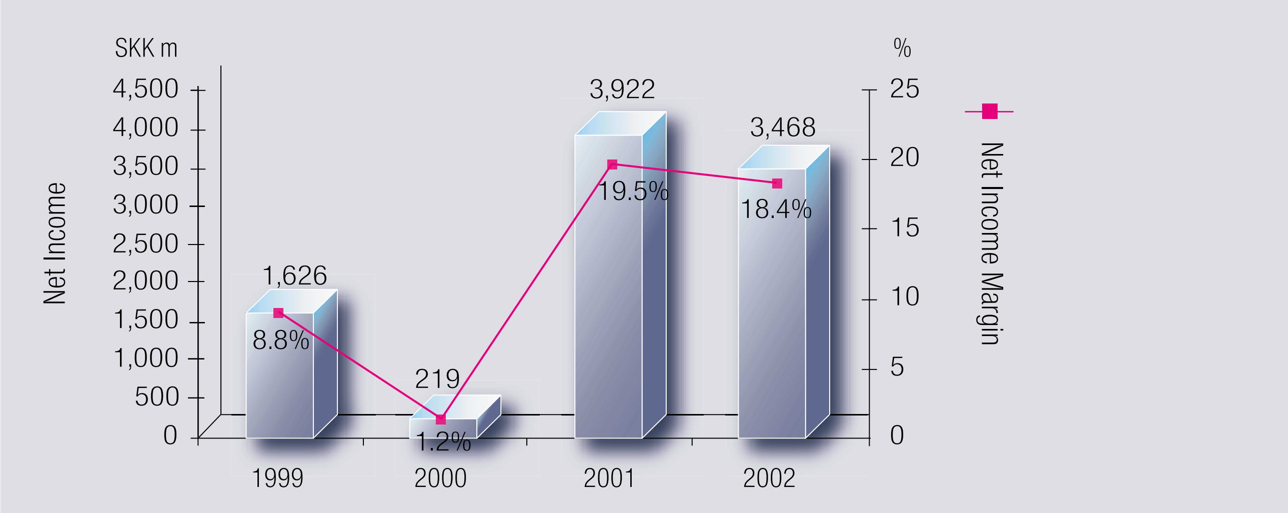
SLOVENSKÉ TELEKOMUNIKÁCIE

Our mission is to grow continuously the business 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.

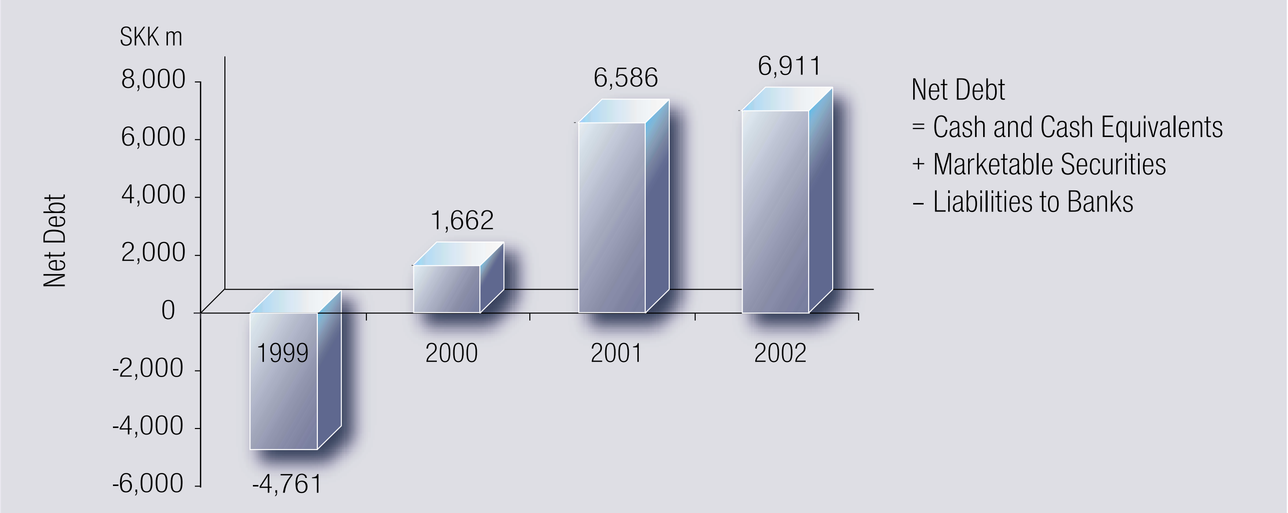
Revenues
Maintaining Strong Position on Telecommunications Market



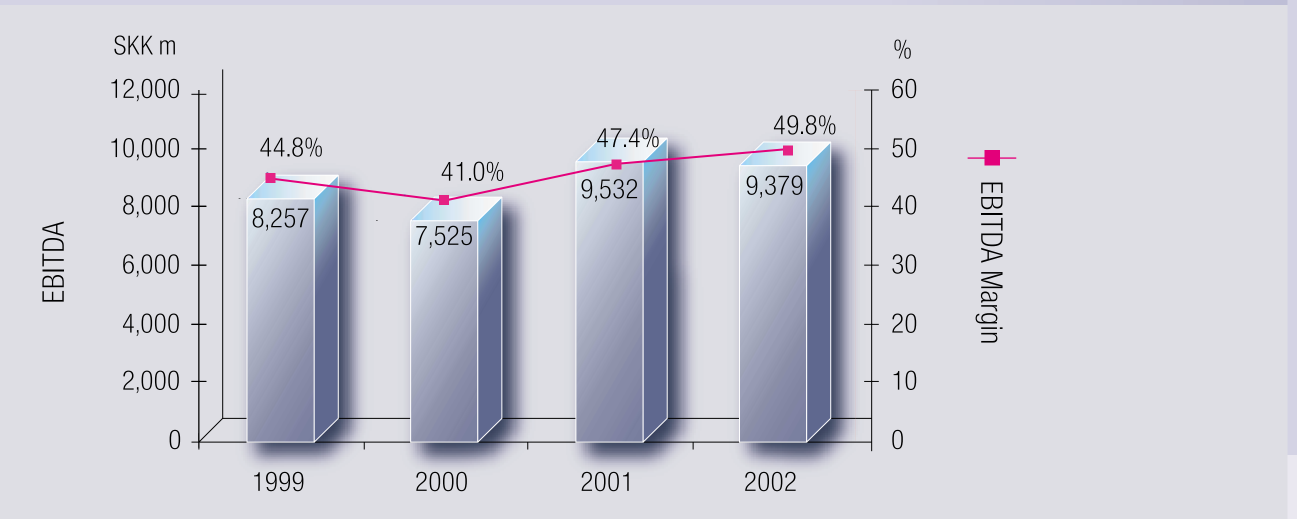
Net Income/Net Income Margin
Retaining High Profit



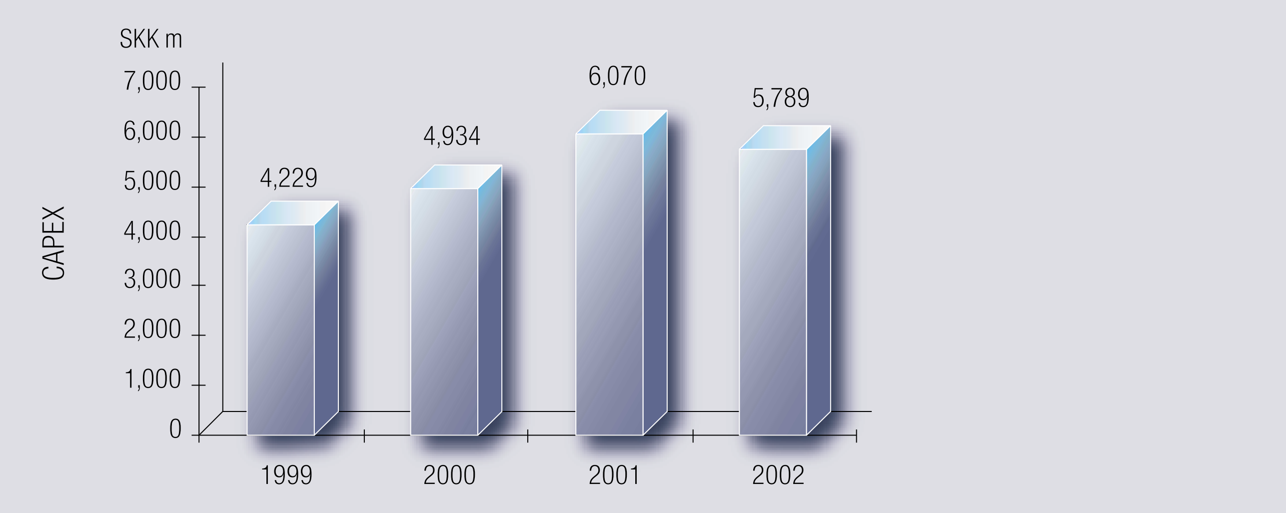
Net Debt
Cash Position Significantly Exceeding Debt



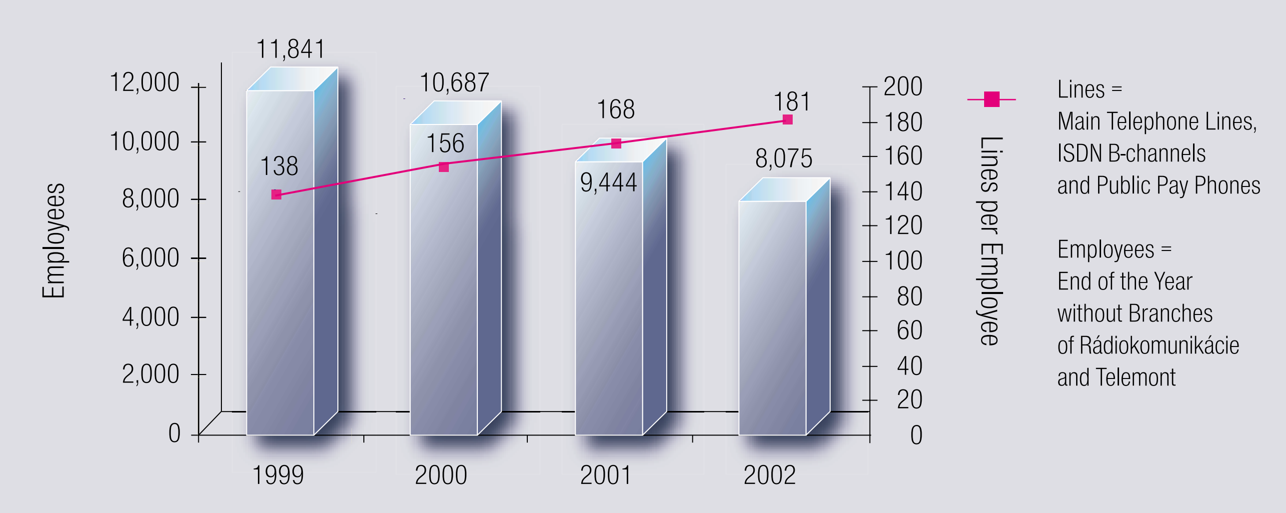
EBITDA/EBITDA Margin
Increasing Efficiency



CAPEX
Stabilised Investments with Focus on Return



Employees/Lines per Employee
Improving Productivity



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Company profile

Our vision is to be the best telecommunications company in Slovakia.

We are a modern telecommunications company with a long history. We became a joint stock company on 1 April 1999 following registration in the Companies Register of the District Court of Bratislava I, in Section Sa, Entry No. 2081/B. The year 2000 was a significant milestone in our history, when a 51% share in our company was sold to the strategic foreign partner – Deutsche Telekom AG. Shareholders of Slovenské telekomunikácie, a.s. as at 31 December 2002 were Deutsche Telekom AG with 51% of shares, the Ministry of Transport, Posts and Telecommunications of the Slovak Republic with 34% of shares, and the National Property Fund of the Slovak Republic with 15% of shares.

We are the leading telecommunications services provider in Slovakia. We own and operate a telecommunications network covering the entire territory of the Slovak Republic; we provide national and international telephone services and a wide portfolio of data and Internet services. In addition to the stated services we also provide the distribution and broadcasting of radio and TV signals and offer a wide range of value added services. As at 31 December 2002 we had 1,457,794 telephone lines throughout Slovakia, inclusive of ISDN B-channels and public payphones. We are one of the largest employers in Slovakia and as at 31 December 2002 the average full time equivalent was 9,804.

The year 2002 was a year of changes for us, and more particularly, of preparations for the liberalisation and opening of a competitive environment in the area of public voice services starting from 1 January 2003. In line with our vision to be the best telecommunications company on the Slovak market, we focused on core activities, namely on data solutions, Internet services, and high value added services.

Last year was also a year of ongoing restructuring. Based on the resolution of the Board of Directors of Slovenské telekomunikácie, a.s., branches in the regions of Bratislava, Western, Central, and Eastern Slovakia were abolished in 2002 and their operations were taken over by individual units of the company. Slovenské telekomunikácie, a.s., TELEMONT, o.z. branch which provided installation work in connection with all kinds of technologies in the telecommunications network, was sold to TELEMONT SLOVENSKO, s.r.o. with effective date of 1 June 2002. Two new limited liability companies – RK Transmission, s.r.o. and RK Tower, s.r.o. were founded as a result of restructuring the branch of Slovenské telekomunikácie, a.s., Rádiokomunikácie, o.z. which provided the distribution and broadcasting of radio and TV signals all over Slovakia.

Slovenské telekomunikácie, a.s. has a 51% capital share in EuroTel Bratislava a.s., a provider of mobile communications services and data networks operator.

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

Address

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

The year 2002 was a break-through year for Slovenské telekomunikácie, a.s. The company and the entire telecommunications market braced for full market deregulation starting on 1 January 2003, the date on which our newly appointed CEO, Mr. Miroslav Majoroš, took up his post. Slovenské telekomunikácie, a.s. is well positioned to meet the anticipated competition head-on. With a highly developed infrastructure and a state-of-the-art billing system, we are ready to meet customer demand for the full range of telecommunications services on one hand, and to serve the needs of licensed operators on the other. Customer orientation and innovation were the main focus of Slovenské telekomunikácie, a.s. in achieving its vision of being the number one telecommunications operator in Slovakia. With a wide variety of products and services, including new broadband access products, we more strongly focused our attention on the customer and on innovative technology.

To achieve our ambitious goals, the Board of Directors of Slovenské telekomunikácie, a.s. together with the support of our shareholder partners – the Slovak government and Deutsche Telekom, decided to streamline the company's activities, and to concentrate on our core business. As a result, our complete organisation was successfully adapted and non-core operations, such as Slovenské telekomunikácie, a.s., Telemont, o.z. branch were sold off.

Slovenské telekomunikácie, a.s. is a strong supporter of the path to the European Union. Moreover, in order to make access to the global information society easier for the younger generation of Slovaks, we play our part by providing schools with Internet access within the government's eSlovakia Project.

The outcome of all these challenging activities is that Slovenské telekomunikácie, a.s. has produced excellent business results in 2002.

I am fully aware that without the outstanding performance of all our employees and without the trust shown by our customers, Slovenské telekomunikácie, a.s. would not have been able to meet the demanding goals set out by the Board of Directors. I am very proud that our company is so confidently fulfilling its vision – to be the best telecommunications company in Slovakia.

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

Dr. Mark von Lillienskiold,
acting President/CEO
of Slovenské telekomunikácie, a.s.

At the beginning of 2002 we knew that the period ahead of us would be demanding, and at the same time, also very dynamic. It was the last year before full liberalisation of the telecommunications market. We had experience with liberalisation in the field of data and online services, which had already been liberalised. Compared with other European countries we had a relatively short period of time to thoroughly prepare for liberalisation of the fixed telephone lines' market.

In addition to these preparations, we continued with the conversion of the classic telecommunications company into a modern customer-oriented company. Our most important projects were the tools necessary for this change. These projects included a focus on core business and the corresponding restructuring and reorganisation of the company, product innovation, implementation of new customer care tools, as well as improvement of sales channels. At the same time we managed to implement the eSlovakia Project, which was aimed at the 'informatisation' of society.

I regard last year as an extraordinary one, especially from the perspective of major product innovations. Slovenské telekomunikácie, a.s. is one of the first fixed line telecommunications operators in Europe to introduce second based billing after the first minute of a call. The implementation of such a system was an essential prerequisite for the development of a modern portfolio of telecommunications products. We improved customer care by means of new sales channels, Infotels, and modern Call Centres.

We were able to carry out these changes and achieve our successes only thanks to the team of experienced and qualified employees, to whom we are constantly devoting our attention. The fact that we truly live by our company values helps us become even better.

The year 2002 proved that Slovenské telekomunikácie, a.s. possesses the potential to be a modern telecommunications company of great importance not only to its customers and employees, but in particular to the Slovak economy. For that to function well, it is crucial that it includes as many financially stable companies offering competitive products and services, as possible. Slovenské telekomunikácie, a.s. definitely ranks among such companies. The strategy of Slovenské telekomunikácie, a.s. has already reaped its first rewards, as the EBITDA margin has progressively improved thanks to steps improving productivity and the efficiency of our company; in 2002 the EBITDA margin reached 49.8%, while in 2001 it was 47.4% and in 2000, 41.0%. As in previous years, Slovenské telekomunikácie, a.s. continued to be one of the largest employers and tax payers also in 2002.

Slovenské telekomunikácie, a.s. has a clear goal in its sights – to be the leading telecommunications company providing its customers with modern services and competitive products.

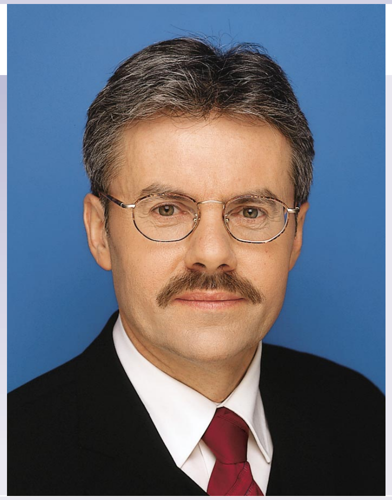
Dr. Mark von Lillienskiold,
acting President/CEO
of Slovenské telekomunikácie, a.s.

Executive Management Board

Ing. Ladislav Mikuš,
President/CEO
Born in 1954. He worked in the position of President/CEO of Slovenské telekomunikácie, a.s. from September 2000 to July 2002. He was responsible for strategic management and development of the company.

Dr. Mark Peter Montagne von Lillienskiold,
acting President/CEO,
Senior Executive Vice-President/CFO
Born in 1945. He took the office of acting President/CEO of Slovenské telekomunikácie, a.s. for the period from July to December 2002. He was appointed to the position of CFO in December 2000.

PhDr. Anna Hudáková,
Executive Vice-President/CHRO
Born in 1959. She was appointed to the position of CHRO in January 2001. She is responsible for the planning, management, and development of human resources.



Dipl. Ing. Herbert Müller,
Senior Executive Vice-President/CMSO,
acting CTO
Born in 1949. He was appointed to the position of CMSO in December 2002. He is responsible for the management of marketing and sales activities as well as for management of the network infrastructure.

Dr. Torsten Minkwitz,
Executive Vice-President/CIO
Born in 1965. He was appointed to the position of CIO in January 2001. He is responsible for IT affairs in the company.

Dipl. Ing. Paul Büki,
Executive Vice-President/CMSO
Born in 1963. He worked in the position of CMSO from December 2000 to December 2002. He was responsible for sales, customer care and marketing activities.

Dipl. Ing. Jörg M. Kramer,
Executive Vice-President/CTO
Born in 1954. He worked in the position of CTO from December 2000 to December 2002. He was responsible for management of the network infrastructure.

Corporate Bodies

Board of Directors of Slovenské telekomunikácie, a.s.

Dr. Kai Höhmann	Chairman
Ing. Štefan Bugár	Vice-Chairman
Fridbert Gerlach	Member
Dr. Mark Peter Montagne von Lillienskiold	Member
Ing. Ladislav Mikuš	Member until 3 July 2002
Ing. Jozef Pavlík	Member
Ing. Peter Stropko	Member
Dipl.-Ing. Hans Albert Aukes	Alternate member since 1 October 2002

Supervisory Board of Slovenské telekomunikácie, a.s.

Ing. Anton Závodský	Chairman
Dr. Frank-Reinhard Bartsch	Vice-Chairman
Ing. Štefan Genčúr	Member
Ing. Pavel Kyman	Member
Ing. Viliam Podhorský	Member
Ján Martinovič	Member
JUDr. Eleonóra Valentová	Member
Dr. Christoph von Damm	Member until 10 May 2002
Dr. Jens Nebendahl	Member until 10 May 2002
Dr. Klaus Nitschke	Member since 10 May 2002
Dr. Ralph Rentschler	Member since 10 May 2002

A Year of Change

A Year of the Customer

A Year of Innovations and Modernisation

A Year of Team Work

A Year of Social Responsibility

A Year of Financial Stability

Expectation

[changes shape the future]

We completed projects that were of strategic importance for maintaining our leading position and for becoming a modern telecommunications company. One of the most important projects concerned preparations for a fully liberalised market.

A Year of Change

Right strategy

In 2002 the process of transforming the company into a market and customer-oriented telecommunications company reached its peak. It brought about changes of strategic importance with regard to company management, development and the range of products and services, organisational structure and employment policy. We determined the strategy for further development of all areas in which Slovenské telekomunikácie, a.s. operates, i.e. fixed telephone lines, data communications and online services, so as to make the best use of the potential for their further growth.

Successful areas of change

The most significant changes focusing on the internal environment included full centralisation of all activities and a marked increase in efficiency. By selling Slovenské telekomunikácie, a.s., TELEMONT, o.z., branch we concentrated on core business. Activities targeted at our customers represented an important part of our preparations for a fully liberalised market and the corresponding competition. We introduced new products, services, new billing system, and modern ways of direct and indirect communication with our customers.

Comprehensive preparation for a fully liberalised market

Every one of us on each management level participated in the preparation for a fully liberalised telecommunications market. We took into consideration all of the provisions of the Telecommunications Act and related legal regulations and also built on the experience of telecommunications operators of fixed lines in neighbouring countries. Preparations were focused on fulfilment of legislative requirements, technical readiness for interconnection, the creation of a team of qualified experts necessary for the provision of services related to requirements stipulated by the Telecommunications Act, as well as on development of a competitive portfolio of products and services.

The outcome of these preparations is that as at 1 January 2003 Slovenské telekomunikácie, a.s. met the legal prerequisites and created the foundation for the provisioning of new modern services.

Expecting new challenges

We know that liberalisation will bring new challenges and possibilities. We want to be a market leader in all our business activities also in the new environment. In order to achieve this we will continue in our main strategy, at the heart of which are the customers. We have always offered them service quality and reliability, which we will continue to improve. We know that only a modern and innovative approach in the area of fixed line services is the key to success. We will make use of the growth potential in the advancing field of data communications and online services and will search for new opportunities for its utilisation. We have proven that we can work efficiently with costs and so increase our profitability. Changes need people who can implement them; and thus we also concentrate our attention on retaining and developing a team of qualified and motivated employees.

A Year of Change

A Year of the Customer

A Year of Innovations and Modernisation

A Year of Team Work

A Year of Social Responsibility

A Year of Financial Stability

Attention

[the customer's wish is what matters]

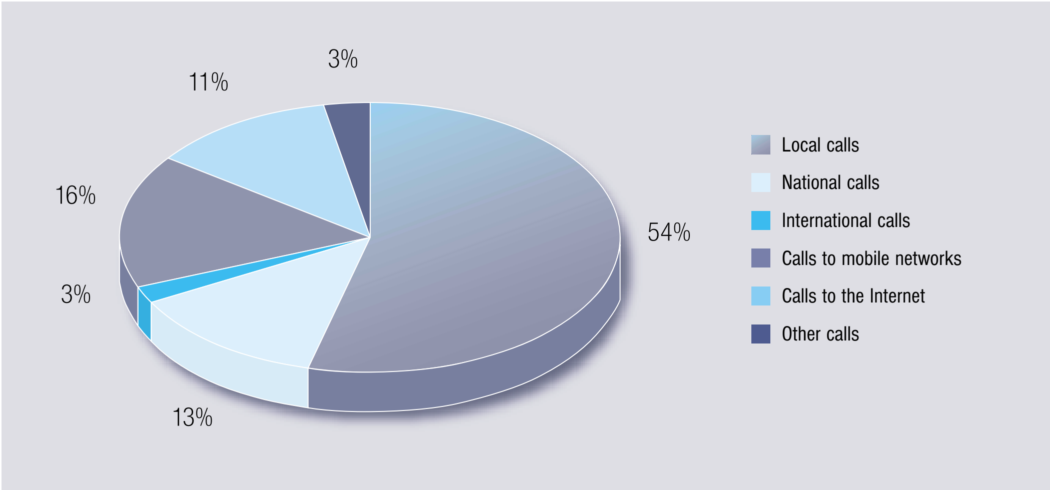
We focused on getting ourselves ready for the introduction of new and interesting products for our customers and so further improve the quality of our services. Making calls in our network is still one of the most advantageous options in Slovakia.

A Year of the Customer

Pay only as much as your call takes

In 2002 we became one of the first fixed line telecommunications operators in Europe to introduce time-based billing (TBB) after the first minute of a call. TBB enabled us to provide our customers with new calling plans at advantageous prices via almost 1.5 million telephone lines.

Breakdown of calls in 2002



Best prices in Slovakia

Along with TBB after the first minute of a call we introduced new standard tariffs for residential clients with calling plans that include free minutes for local and long-distance calls. TBB together with a new improved bill layout gave our customers a better overview of their calling behaviour. At the time of launching new calling plans we also offered prices for weekend calls, which were the best in Slovakia. The price of a long-distance call was only SKK 1.50* per minute and you could make local calls at just SKK 1.00 per minute. Prices for calls made within our network were still among the most advantageous in the country.

Option of choice with Slovenské telekomunikácie, a.s.

TBB after the first minute of a call allowed us to meet the expectations and demands of our customers in a better and more accurate way. It let us also bring optional calling plans with special tariffs to the market. ST Mini with a credit of 30 free minutes was immediately popular and was the most suitable solution for "passive" users (i.e. those who receive rather than make calls). ST Maxi was another completely new calling plan for more solid residential customers, providing a credit of 60 free minutes and exceptionally low prices for off-peak and weekend calls – only SKK 0.60 per minute for local and long-distance calls.

The new calling plans Business Partner 12, 60 and 300 were introduced in the second half of 2002 and were designed in order to meet the high communications demands of our small, medium-sized, and large business customers. All of these calling plans offer cheaper international calls, call discounts and loyalty bonuses.

* Prices given in this chapter are VAT exclusive

Advantageous Internet

In October 2002 Slovenské telekomunikácie, a.s. introduced innovative plans for Internet users - Internet Efektiv and Internet Intensiv. They represent a solution for customers who spend a lot of time on the Internet, e.g. to browse web pages, download files or on-line applications. The tariff model decreases the price of longer calls on the Internet and provides a basic number of free hours.

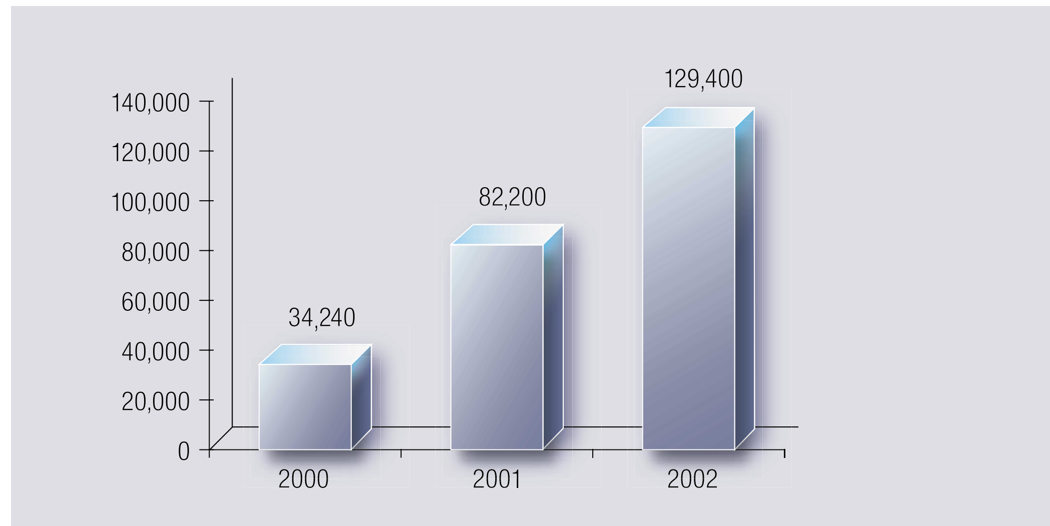
ST Voice-VPN tailor-made solution

We introduced customised solutions for voice communication to provide comprehensive solutions to our largest accounts. These solutions integrate all accesses of the client and create a virtual voice network with special billing and discounts.

ST ISDN constantly growing

At the end of 2002 customers of Slovenské telekomunikácie, a.s. used a total of 129,400 ISDN B-channels, including basic (BRA) and primary (PRA) access. This represents an increase of 57.4% compared to the previous year. ISDN is popular especially among business customers and at the end of 2002 almost every 4th business line had ISDN access. In August 2002 we introduced new calling plans – ST ISDN Profi and ST ISDN Dynamik, the latter of which has become the most popular calling plan for ISDN.

Number of ISDN B-channels



Leading the way in data communications

In the field of data services we continued with the stabilisation of our most important data service – leased lines service and with development towards virtual private networks based on IP/MPLS.

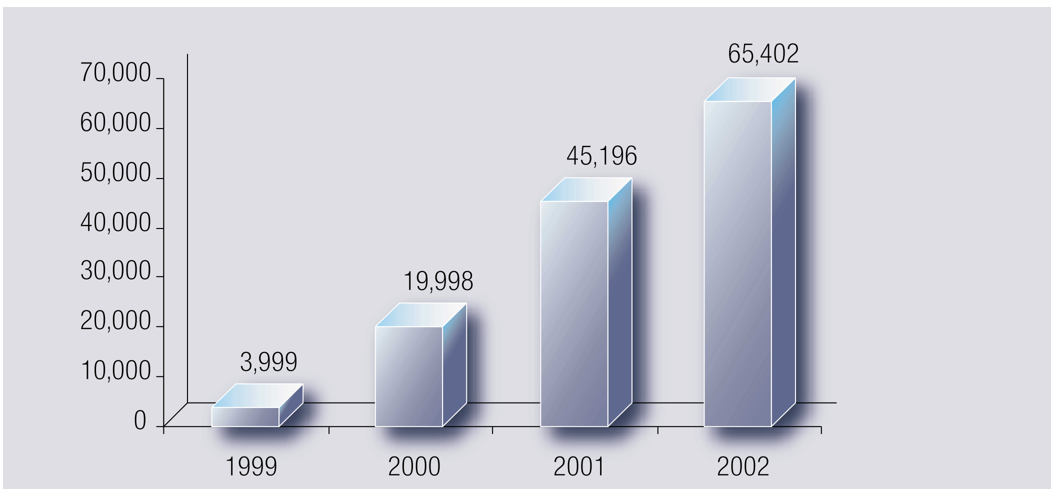
Last year we extended our product portfolio of leased lines to include metropolitan leased lines, which have both terminal points located in one of the county capitals. We successfully completed the pilot provisioning of the ST Dial VPN service and established it as one of our standard products.

In order to increase the quality of data services, we improved the quality parameters of the ST-IP network by application of MPLS technology in 2002. In addition to the provision of the IP VPN service based on Frame Relay and ATM, this improvement of quality also enabled us to provide a totally manageable MPLS VPN network.

ST Online leads the market

In 2002 ST Online reached the position of mass Internet product offering integrated, standardised solutions with simple operation and competitive prices. A market share exceeding 50% is proof of this success. The number of customers using ST Online increased in 2002 by 44.6%, totalling 65,000 at the end of the year.

Customer development – ST Online



Increased customer satisfaction with redesigned ST Online portfolio

The creation of a clear portfolio of accesses, e-mail and hosting products that can be easily combined and enable simple reporting of costs and revenues, together with the fact that we successfully completed their efficient implementation, resulted in an increase in the average number of new customers from 1,200 to 3,000 in the last three months of 2002.

The new situation on the market called for a modular portfolio of individual products for connection, electronic mail services, and web hosting services from which customers could tailor-make a solution best suited to their needs.

ST Online portal

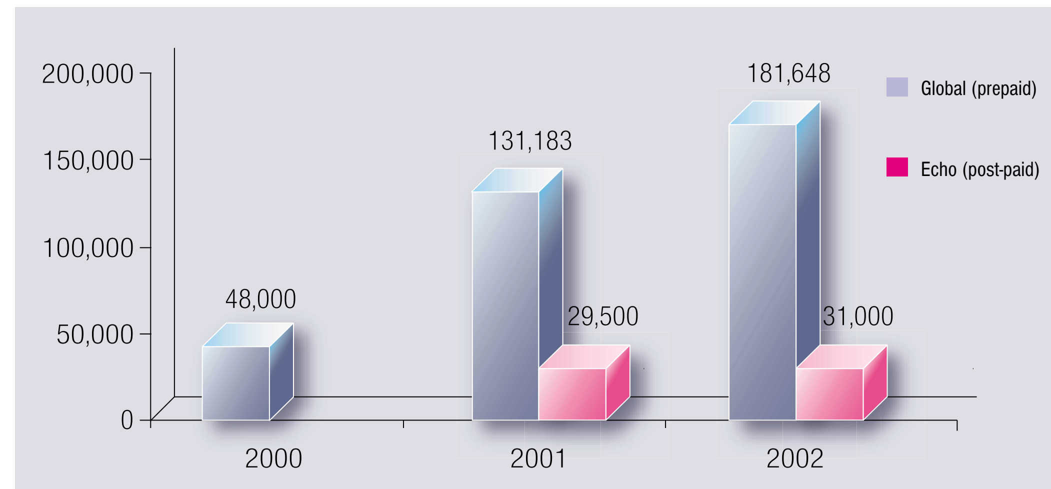
In October 2002 we made a new version of ST Online website available to our customers – www.stonline.sk <http://www.stonline.sk> and the interface for ST Online products moj.stonline.sk <http://moj.stonline.sk> (electronic mail service, webmail, SMS notification, user portal, web calendar, address book and user tool). Customers appreciated the new and easy-to-follow design of the website and integrated webmail, as well as the possibilities offered by the calendar.

Value added services

The most successful service on an intelligent network platform that we introduced in 2002 was the toll-free number 0800, which thanks to extended options and flexibility marked a 45% increase in revenues compared to 2001, and shared cost number 0850, which after the introduction of new terms and conditions of service in July 2002 marked revenues increase by more than 100% compared to 2001.

Phone and prepaid cards are still very popular among customers. The popularity of the Global prepaid card grew considerably, which is confirmed by a 40% increase in revenues generated by its usage, compared to 2001. The operator-assisted enquiry service available to customers 24 hours a day non-stop was also used very frequently.

Number of sold prepaid and active post-paid cards



Positive development maintained in sales of customer premises equipment

In 2002 Slovenské telekomunikácie, a.s. retained its leading position on the market with customer premises equipment (CPE) sales. The number of CPE sold increased by 24%. Revenues from sales of CPE were influenced by the successful sales strategy for the ISDN service aimed at acquiring long-term users.

Following the introduction of new calling plans combined with a new type of CPE, we succeeded in stabilising the number of customers.
Thanks to the number and variety of CPE sold in 2002, we managed to lay the foundation for the smooth implementation of new value added services, e.g. SMS via fixed networks, CLIP on analogue telephone lines, etc.

International carriers' services

Key emphasis was put on increasing the quality and sales volume of international services. International ISDN coverage with 38 operators in 34 countries accounts for almost 85% of the outgoing international traffic volume. Sales activities in the area of transit services and direct interconnection with new alternative international operators facilitated an increase in sales of transit services by 59% compared to 2001.

National carriers' services in preparation for the liberalised market

Thanks to the implementation of many projects, as of 1 January 2003 we can sell our network services to new operators entering the liberalised market even more efficiently. We are ready for the liberalised market.

Our company has established a new organisational unit that develops and provides specialised services to telecommunications companies, especially to licensed providers of public telecommunications network services and providers of other telecommunications services. These target groups include national and international carriers operating both in the Slovak Republic and abroad. We offer interconnection services, network access services, and transit services to these entities.

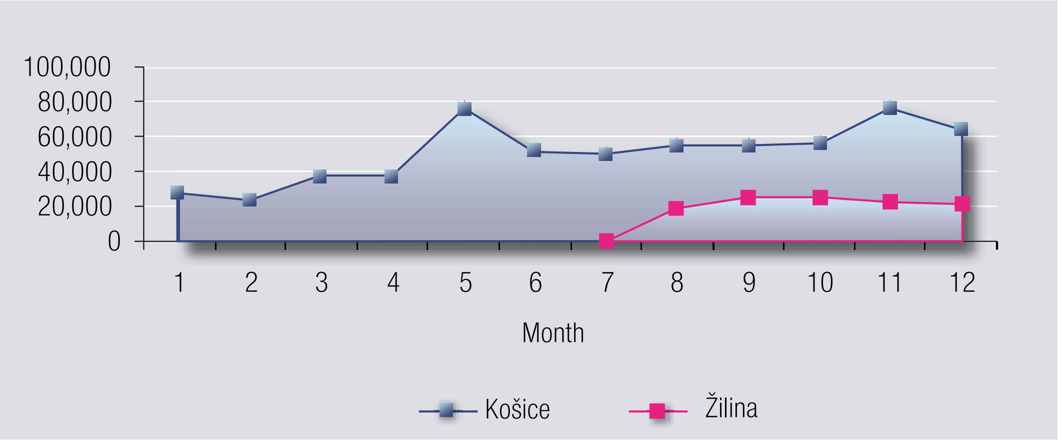
Radio and TV broadcasting

Slovenské telekomunikácie, a.s., Rádiokomunikácie, o.z. provided radio and TV broadcasting for operators by law and licence holders operating nation-wide. It also provided the transport of modulations for transmitters via radio relay routes and data transmission for other customers. Slovenské telekomunikácie, a.s., Rádiokomunikácie, o.z. operates approximately 1,000 TV retranslating stations, via which it effectively covers the territory of Slovakia for STV (Slovak TV) and STS Markíza (private TV). A positive result of 2002 was the construction and launch of an up-link on the Kamzík technical site by means of which Slovenské telekomunikácie, a.s., Rádiokomunikácie, o.z. now provides for the distribution of modulations for SRo (Slovak radio), Twist, FUN, and OKEY radio stations, STV1 and STV2 (1st and 2nd channels of Slovak TV), and STS Markíza (private TV). We introduced a Slovak Link product to the market, i.e. a package of radio and TV programs broadcast via satellite. Customers can subscribe to Slovak Link either through a third party (cable TV networks) or on an individual basis. The primary goal of 2002 concerned the restructuring of the company, the outcome of which was the foundation of two new companies, RK Transmission, s.r.o. and RK Tower, s.r.o.

Call Centres

Our customers had two Call Centres at their disposal in 2002. The Call Centre in Košice served our residential customers and the one in Žilina served the business clients. Altogether, the Call Centres and ST Online Hotline employed almost 250 people, by which we helped increase the employment rate in the respective regions. Call Centres provide customers with free-of-charge information on their telephone lines and the services they use. Customers can also order new services or receive an explanation about their bills there. The high number of incoming calls proves that we have chosen the right way of communicating with our customers.

Number of incoming calls to Call Centres in 2002



New sales channels

In 2002 we focused not only on the fast, high quality provision of services to customers, but also on the offer of products tailored to their needs. The right sales strategy was chosen for business and residential customers via new sales channels. Sales to business customers is based on the principle of individual customer care by sales managers and sales representatives, the number of which exceeded 100 in 2002.

New concept for Infotels

We prepared a new concept for Infotels in order to provide services to our residential customers in more comfortable and better located premises. The new sales points in Martin, Košice and Žilina better present our products and help our services be more competitive. Each of these Infotels offers multimedia presentation of products, Internet browsing in the style of Internet cafes and a place for testing of CPE.

Satisfied authorised partners

We approach our customers directly at their premises all over Slovakia via our authorised partners and agencies. ISDN, ST Online, and telephone cards were the top selling products through indirect sales. Authorised partners and agencies achieved significant sales growth, while the sales network was extended and quality increased further.

Successful marketing communication

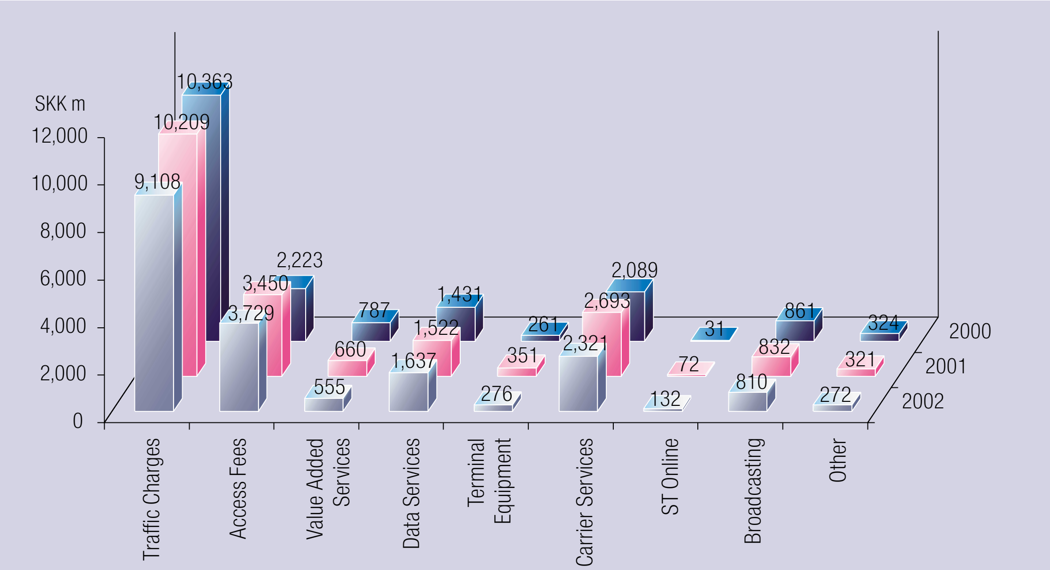
Key attributes of brand image such as customer orientation, an innovative company, a wide range of products and services, as well as affordability, were considerably strengthened thanks to campaigns focusing on both business and residential customer segments. Product innovations were introduced to the market using original and creative campaigns, which greatly boosted their sales. The traditionally high level of these campaigns was preserved. The greatest success in 2002 was the Silver

Drum Stick award from the Golden Drum International Advertising Festival in Portorož for the "White campaign" promoting Internet ST Online.

Our economic standing is solid, despite growing competition

In 2002, the operating profit amounted to SKK 3,817m, which in comparison to 2001 represents a slight decrease by SKK 257m; however, in comparison to 2000 the amount of operating profit increased by SKK 776m. As to revenues, the development during past three years was stable, in 2002 the revenues amounted to SKK 18,840m which represented a decrease by SKK 1,270m compared to 2001 and at the same time an increase by SKK 470m compared to 2000. In 2002, profit before tax amounted to SKK 4,486m which represents a decrease by SKK 13m compared to 2001 and an increase by SKK 3,716m compared to 2000. The strategy of Slovenské telekomunikácie, a.s. has already reaped its first rewards, as the EBITDA margin has progressively improved thanks to steps improving productivity and the efficiency of our company. In 2002 the EBITDA margin represented 49.8%, while in 2001 it was 47.4% and in 2000 only 41.0%.

Revenue development by product cluster



We will deliver high quality and modern services

The year 2003 will be challenging for us as it is the first year of a fully liberalised telecommunications market, while also being the year in which customers will be given the chance to compare our offer with that of our competitors and so decide which company will supply them with telecommunications services. Our primary goal will be to retain our current business and residential customers and to win new ones as well. We will continue with modern product innovations and ensuring the high quality and speed of services. We want customers to know that they can rely on our company – the leader on the Slovak telecommunications market.

A Year of Change

A Year of the Customer

A Year of Innovations and Modernisation

A Year of Team Work

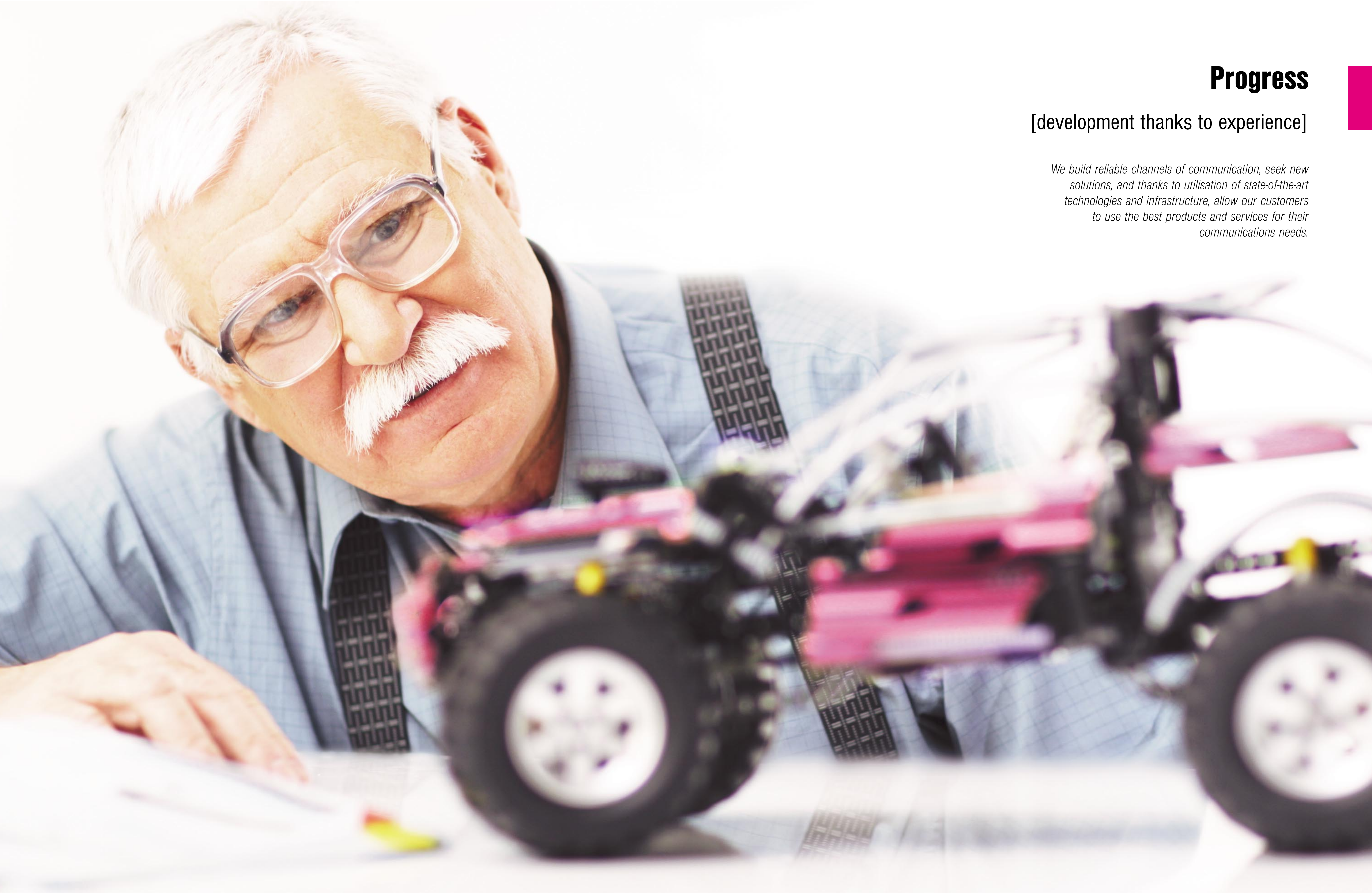
A Year of Social Responsibility

A Year of Financial Stability

Progress

[development thanks to experience]

We build reliable channels of communication, seek new solutions, and thanks to utilisation of state-of-the-art technologies and infrastructure, allow our customers to use the best products and services for their communications needs.



A Year of Innovations and Modernisation

We possess a high quality and modern network infrastructure

As in previous years, in 2002 Slovenské telekomunikácie, a.s. continued with the ongoing modernisation, improvement, and extension of its network infrastructure. At the same time, we prepared our networks for full liberalisation of the telecommunications market. Making use of the synergy within the Deutsche Telekom Group was a significant asset.

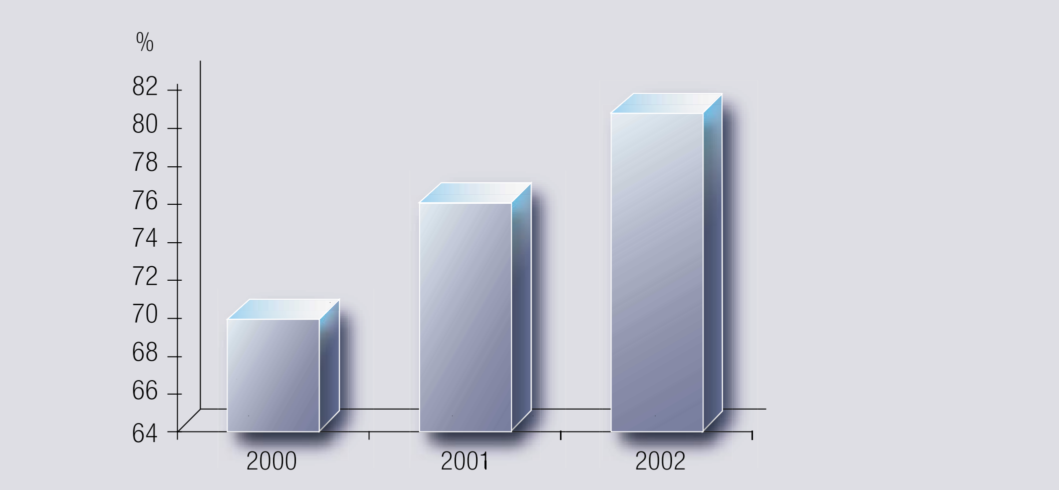
Our switching network is ready for the conditions of full liberalisation

When building up and modernising the switching network, primary emphasis was placed on four core areas. The first was an increase in the digitalisation rate and corresponding modernisation of the network. The second area concerned meeting market demand for voice service. The third and just as important area was the creation of conditions for the smooth entry to the fully liberalised market and the preparation of the network for interconnection with alternative operators. The fourth came in the shape of traditional co-operation with significant international telecommunications companies and national mobile operators.

We continued increasing the digitalisation rate, which reached almost 81% at the end of 2002, representing an increase of 5%. The number of newly installed telephone lines exceeded 27,000 and the number of ISDN basic rate accesses (BRA) increased by further 16,464 accesses. Due to the great demand of customers, the number of ISDN primary rate accesses (PRA) increased considerably – by 87% compared to 2001.

We successfully created technical conditions in the network enabling time-based billing after the first minute of a call, calling party identification presentation and further provisioning of new services.

Growth of digitalisation rate



We extended the access network and increased its capacity considerably

In 2002 we continued building up so-called integrated access systems capable of integrating voice, data, and broadband access. At the end of 2002 their capacity amounted to 78,224 equivalent channels, which represented a capacity increase of 52% compared to 2001. Customer demand for data services grew considerably, showing a 160% increase in the case of WAN accesses. The increase in the capacity of copper cables represented 89,252 kmp and the optical cables network was extended by additional 297 km. Its total length thereby exceeded 7,900 km. The number of radio accesses was stabilised on the level of 11,500 equivalent channels. In 2002 all technical means enabling the provision of broadband access (ADSL) were also successfully implemented into the network.

Strengthening and optimising data network platforms

The total number of nodes in all domains of ST-WAN/VAN network (Wide area network/Value-added network) increased by additional 41 nodes compared to 2001 and so at the end of 2002 the network comprised a total of 275 nodes. Concerning network ports, their number increased by more than 18% during 2002. The WAN/VAN network provided the leased lines service to the end customers granting the rate of Nx64kbps up to 2,048kbps and the Frame relay service offering the whole range of access rates of up to 2,048kbps for AR (Access Rate) and of up to 1,024kbps for CIR (Committed Information Rate).

In 2002 we continued with expansion of the ST-ATM network. This network was used mainly for providing FRoATM services, for interconnection of LAN networks, and for videoconference services. Due to increased customer interest in the aforementioned services in 2002, the total number of ports of the ST-ATM network increased by 157%.

Investing in the IP network reflects the objective to implement modern technologies

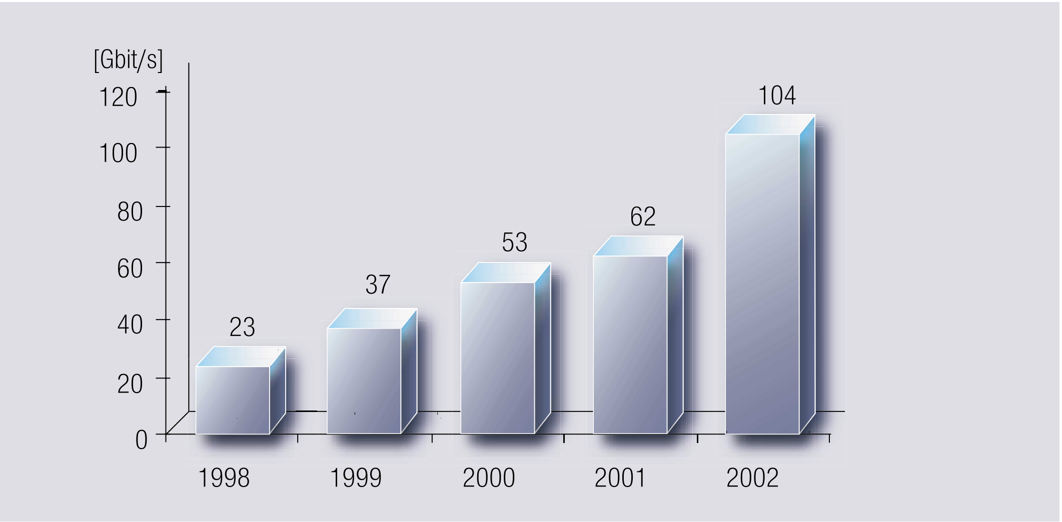
Compared to our other networks, the IP network underwent the most significant qualitative changes. The most important of these changes was the upgrade of individual network layers, the upgrade of the backbone network up to the level of STM-16, and the upgrade of the distribution level up to the level of STM-1. The most important change representing a major improvement in services provided to customers was the implementation of the MPLS (Multiprotocol Label Switching) platform. Slovenské telekomunikácie, a.s. could therefore provide comprehensive customer solutions on the principle of virtual private networks (VPN) and guarantee top quality of services (QoS).

At the end of 2002 we had a highly reliable, robust and nationwide network, aspiring to the five nines mark (99.999%). Besides traditional utilisation of the network for providing on-line services, IP VPDN, and WEB housing, the network was also used for technical realisation of important customer projects as well as for the preparation of technical means to enable broadband (ADSL) connection to the Internet.

Increased transport network capacity as the universal provider of transmission capacities

The transport network witnessed a quadruple increase in capacity compared to 1998; this being possible also thanks to the implementation of DWDM technology (Dense Wavelength Division Multiplexing). In 2002 we increased its accessibility and reliability, perfected the levels of manageability and ensured high quality operation.

Increase in transport network capacity



Improvement of process management and service quality

One of the primary goals of 2002 was to prepare the infrastructure and technologies for a competitive market environment, not only by optimising the processes of service installation, but also by permanent assurance of their top quality. Such an approach results in a shorter service installation time, more efficient operations, administration and maintenance, better customer care and non-stop monitoring, and the guaranteeing of the agreed qualitative parameters of the service (SLA).

Implementation of the first stage of the aforementioned activities started in 2002. This stage concentrated on the implementation of applications supporting the electronic flow of work orders (Work Flow Management System) and the central database system of network infrastructure registry (Inventory and Network Resource Management System). Once the first stage is completed, the process of service installation will become even faster and better.

Proper management of the use of information technologies

Proper management of the use of information technologies contributes greatly to the leading position of Slovenské telekomunikácie, a.s. Proper management not only provides us with the technical prerequisites for high quality implementation of services and products, but also helps us support internal company processes.

Modern technologies increase the quality of customer care and billing

The successful implementation of Customer Care and Billing Programme (CC&B) resulted in the introduction of new modern products to the market, continued improvement of quality and efficiency of services, and also centralisation of attending activities. Time-based billing after the first minute of a call and migration of customers of Slovenské telekomunikácie, a.s. into the new information system for CC&B were carried out as part of the customer care and billing programme.

Owing to the programme results in the course of 2002, all the data of our customers were successfully migrated from the original decentralised systems and workplaces into a new integrated solution that allowed a consolidated and overall view of the customer and the provision of efficient and high quality services.

The architecture of the new solution consists of three main components using off-the-shelf world-class IT applications: integrated customer relationship management, convergent billing and accounting component, and the component of enterprise application integration (EAI). It is the utilisation of the EAI in particular that brought Slovenské telekomunikácie, a.s. among the leading companies using state-of-the-art technologies.

New mediation system for support of modern products

The mediation system facilitated a controllable process for the collection of records of calls from the network and the sending of verified and standardised information about the use of the network by customers to the billing system. It is used for the entire operation of the network, i.e. for traditional voice services, ISDN, online services and interconnection with other operators, as well as for specialised products.

Information technologies contribute to preparedness for liberalisation

In 2002, as part of the Customer Care and Billing Programme, implementation of a special project for the creation of a system of billing for carrier interconnection services (ICBS) was started. Its goal was to prepare company processes and systems in order to adjust them to the conditions of the liberalised market. This system allows billing between Slovenské telekomunikácie, a.s. and other telecommunications services providers operating on the liberalised market.

Our data centre offers non-stop availability and higher security

We continued in the centralisation of information systems and applications. Thanks to centralisation we have an overview of all activities of the company and our efficiency increases due to process standardisation. The data centres, which comply with the highest global standards, operated 24 hours a day, 365 days a year. Such an operation is a guarantee of the reliability, security, and scalability of performance required by our customers, as well as by the internal environment of our company.

The Data Centre Project ensures the consolidation of all IT systems of Slovenské telekomunikácie, a.s. into centralised data centres and non-stop availability of applications to customers (increases performance and availability), defines and implements standards and processes for basic and support functions of the data centres, puts into practice plans and measures ensuring continuity of business. Emphasis is put on prevention and higher security as well as on constituting the basis for future requirements and growth. In 2002 the first data centre was opened and launched into operation in Košice, and we plan to open another one in Prešov.

We will continue improving our services

In 2003 we will continue implementing all projects that were launched in 2002. Our work will comprise new initiatives that will help us improve and make the services we provide to our customers more efficient. The technical conditions of our network and modern information technologies will continue to play their part in preserving the strong position of Slovenské telekomunikácie, a.s. on the telecommunications market.

A Year of Change

A Year of the Customer

A Year of Innovations and Modernisation

A Year of Team Work

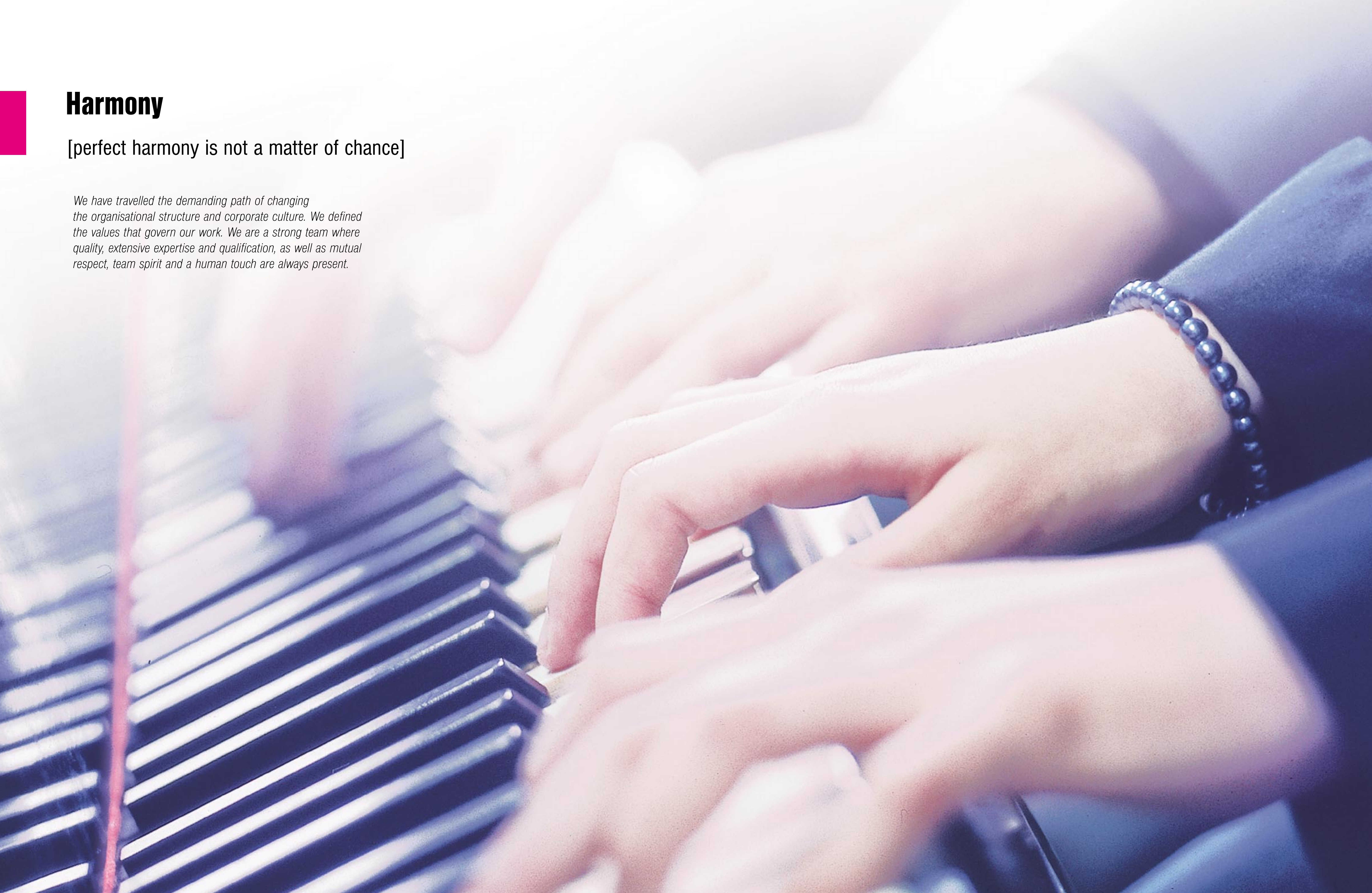
A Year of Social Responsibility

A Year of Financial Stability

Harmony

[perfect harmony is not a matter of chance]

We have travelled the demanding path of changing the organisational structure and corporate culture. We defined the values that govern our work. We are a strong team where quality, extensive expertise and qualification, as well as mutual respect, team spirit and a human touch are always present.

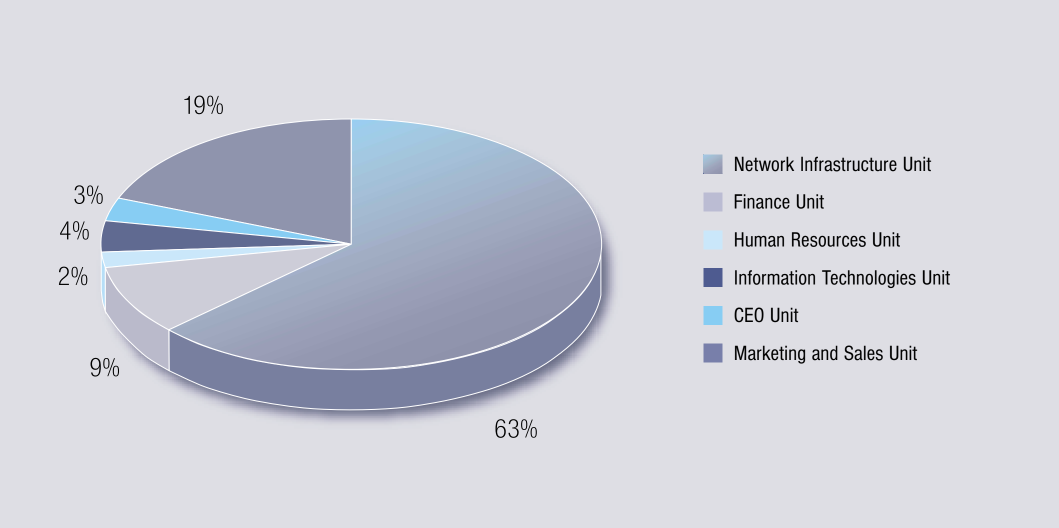


A Year of Teamwork

Restructuring of Slovenské telekomunikácie, a.s.

The overall restructuring of the company has greatly contributed to achieving a streamlined organisational structure, and thus also to more efficient cost handling. As a result, the majority of our employees are concentrated in two principal business lines – marketing and sales, and network infrastructure. The average Full Time Equivalent (FTE) for 2002 was 9,804. Employee age and education structures greatly improved in 2002. The ratio of university graduates employed with our company came to 23%, with almost 70% of our employees being under 45 years of age. Our working teams are balanced also from the perspective of female-to-male representation, with women accounting for 37% of the total headcount.

Headcount by units of Slovenské telekomunikácie, a.s.



We are building up a strong team of professionals

We did a lot as part of the Culture Change Project in order to contribute to the successful operations of our company. We identified so-called “key players”, i.e. those among us who are top experts in their respective professional fields. While getting ready for the fully liberalised telecommunications market we defined Standards for Customer Orientation and Customer Oriented Behaviour. As many as 300 employees helped prepare these Standards. By training and development of managers we contributed to improving both the management and the performance of our company.

Open and transparent communication is extremely important in times of change. We explain the inevitability of change and all the steps taken as part of the transformation of the company and increase of its competitiveness at meetings of the management with employees organised as regular workshops, presentations and discussions.

We introduced a new remuneration and performance management system

In July 2002, we introduced a new unified remuneration system. Evaluation criteria for defining salary variable were unified so that the system could be directly linked to the performance management system.

This new method introduced clear-cut remuneration criteria based on fulfilment of both company and individual goals, as well as on behaviour in line with corporate values. Our teams are aware of what goals lie ahead of them and they know the criteria by which they will be rewarded when the goals are met. In addition to that, we provide a wide array of perquisites and benefits to our employees. These were also the changes that were carried out in our company as part of the Culture Change Project.

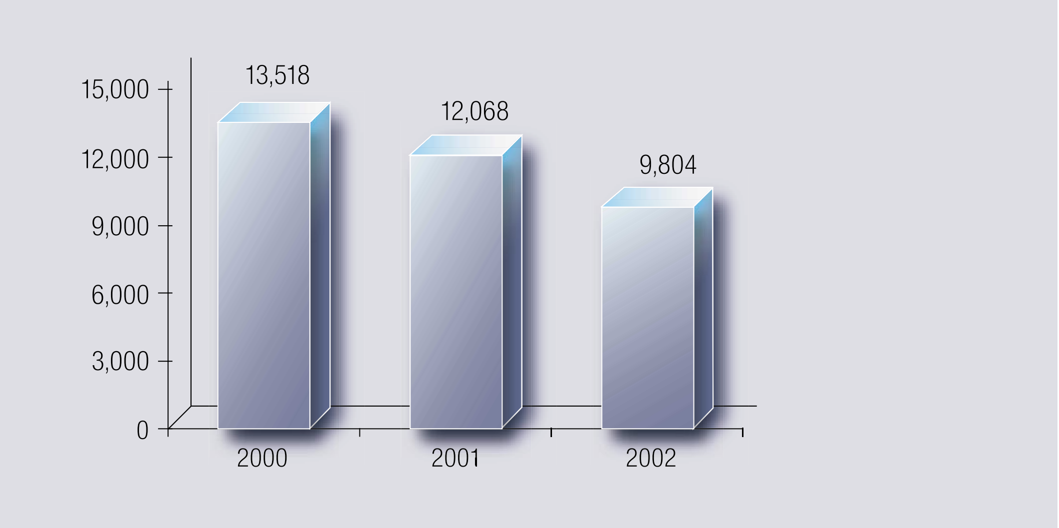
Training benefits our company

The year 2002 was a year of dynamic development for all Slovenské telekomunikácie, a.s.' employees. Educational and training courses focused on developing all areas that could represent a competitive advantage in the external liberalised environment. We organised 2,778 training courses in 2002, which translates as 6.5 training days per employee. Investment in education exceeded the financial volume spent on education in 2001 by almost 30%.

Selecting the best

Ongoing changes in our company put great demands on recruitment and selection of specialists throughout the year, not only in the Bratislava region, but also in Banská Bystrica and Košice. Our aim was to satisfy the needs of the company to the best quality, and in the fastest and most efficient way possible. This effort was supported by our own web application for internal applicants called Job Fair Online, while for external candidates there were links to www.telekom.sk or www.profesia.sk available. In-house applicants have been preferred in staffing open positions. More than 400 newly established positions were staffed by internal candidates.

Employment development (FTE's)



Providing new opportunities for students

Universities as well as secondary education facilities represent a source of quality graduates – potential employees for our company. Many employees are members of state examination committees and collaborate with universities on various projects. Slovenské telekomunikácie, a.s. actively co-operates with AIESEC and IAESTE student organisations. The survey "Most Desired Company 2002" organised among students by AIESEC placed Slovenské telekomunikácie, a.s. in sixth position among the most preferred employers.

Attention to every employee

Our attention was focused not only on new hires or on those who remained with the company, but also on people whose position was no longer in the new corporate organisational structure due to restructuring. The Employment Project includes a procedure for working with employees on soon-to-be-cancelled positions that was developed and implemented in close co-operation with managers and HR Unit employees. Our collaboration with personnel agencies in helping departing employees search for new jobs has been very active, and we have also paid for their re-qualification courses and provided higher than average severance payments. During the course of the changes Slovenské telekomunikácie, a.s. has made every effort to maintain fair relations with social partners – trade unions (Communications Trade Union and Slovak Trade Union of Postal and Telecommunication Workers), by means of open mutual communication.

Preparation for the liberalised market

Compared to neighbouring countries, we succeeded in preparing ourselves for a fully liberalised telecommunications market in an extraordinary short period of time also in terms of human resources. We have actively collaborated with our parent company Deutsche Telekom AG and together organised numerous employee exchange stays that helped us harmonise co-operation between the two companies. Exchanging experience as part of the large international project entitled HR Synergy also proved very beneficial.

We desire success also in 2003

With the aim of carrying on the success of Slovenské telekomunikácie, a.s. in the liberalised market, in 2003 the HR Unit will focus mainly on expanding performance management to four managerial levels, introducing a flexible benefits' system, and on launching an Intranet application that should support the processing of salary variable. Future targets include the implementation of the corporate HR strategy and process redesign aimed at making services provided to internal customers more efficient, thorough implementation of the Culture Change Project, as well as further training and development of our employees. We desire success also in 2003 and want employees who are motivated and play active part in strenuous, yet necessary process of changes in Slovenské telekomunikácie, a.s. and achievement of demanding corporate objectives.

A Year of Change

A Year of the Customer

A Year of Innovations and Modernisation

A Year of Team Work

A Year of Social Responsibility

A Year of Financial Stability

Responsibility

[real responsibility is

the responsibility towards others]

We are aware of our social responsibility with regard to the arts, education, sports and charity. The projects we supported produced tangible results and have become a natural part of the life of almost every single one of us.

A Year of Social Responsibility

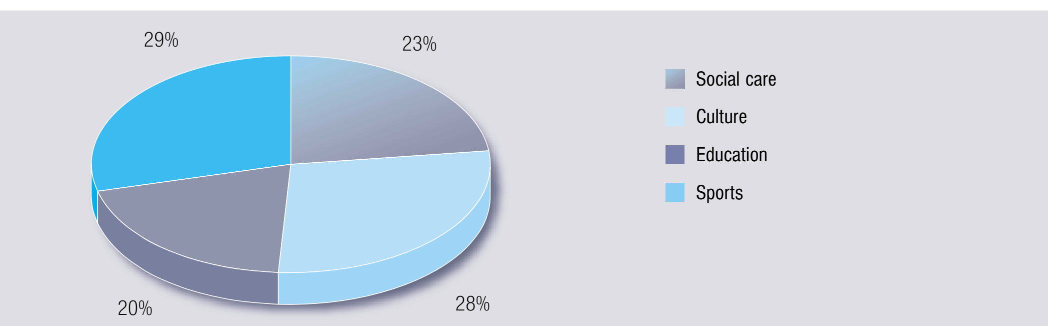
We help Maybe you too called the special number of the For the Children of Slovakia Foundation in their An Hour for Children Campaign and so helped children in need. Maybe you applauded at the Christmas concert of A Smile as a Gift Foundation and so from the summer of 2002 children from orphanages can now relax in three new recreational chalets. The League against Cancer Foundation could buy a flow cytometer machine, which enables the timely diagnosing of cancer. Maybe the yellow flower of humanity on Daffodils' Day blossomed also on your coat or in your hand. Children in the renovated school and healthcare centre in Ľubietová will certainly remember the disastrous floods. The Fifth Woman Campaign finally opened the issue of helping abandoned and abused women. We helped in all these initiatives. In 2002 we discovered, thanks to the Life Lines Project, that many people, both adults and children, need help or advice free of charge. And they will need it in 2003 as well.

We educate eSlovakia – a project aimed at spreading the Internet in elementary and secondary schools all over Slovakia represents a special chapter for us. Owing to the project, the number of Slovak schools connected to the Internet reached 845. However, it is not enough to connect, one also needs a reason for being connected and the right guides in the Internet world. That is why, as part of the Infovek Project, we also continued to support the training of teachers.

We provide the extraordinary We bring communication into the lives of our customers every day. Art, dancing, singing or theatre are the next dimensions of communication. We were the main partner for Bratislavská hudobná jar 2002 (Bratislava Musical Spring 2002) and we hosted the opera diva – Montserrat Caballé. We gave the Slovak audience the opportunity of experiencing their moment of fame at the International Film Festival ArtFilm in Trenčianske Teplice. Thanks to Slovenské telekomunikácie, a.s. the traditional SĽUK (Slovak Folk Artistic Ensemble) starred in Cirkus Svet – an untraditional show of Ján Ďurovčík. At the end of the year stages were animated by the Czech Theatre Festival 2002.

We join hands with the best We know how important it is to support the best and raise new talents at the same time. Since 2002 we have been the general sponsor of the top Slovak ice-hockey competition which essentially reared the World Champions 2002. In the next three seasons starting with the 2002/2003 season, the official name of the competition will be Slovenské telekomunikácie Extraliga.

Main sponsoring activities



A Year of Change

A Year of the Customer

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A Year of Team Work

A Year of Social Responsibility

A Year of Financial Stability

Certainty

[steps taken in the right order lead to financial stability]

We contribute to economic prosperity and social balance. By adopting a deliberate strategy for the efficient attainment of defined goals we managed to ensure company's financial stability, which is a guarantee of its continued growth.

Slovenské telekomunikácie, a.s.

Consolidated Financial Statements

Prepared in accordance with International Accounting Standards

General information

These consolidated financial statements have been prepared by Slovenské telekomunikácie, a.s. ("the Company") for Slovenské telekomunikácie, a.s., its subsidiaries RK Tower, s.r.o. and RK Transmission, s.r.o. and its joint venture EuroTel Bratislava, a.s., together („the Group"). The Company is incorporated as a joint stock company in the Slovak Republic at 1 April 1999. On 4 August 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 Group and are accountable to the owners of the Group.

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

	2002	2001
Staff numbers	Number	Number
Average staff numbers employed during the year	9,804	12,068

Reporting currency

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

Registered address

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

Mark von Lillienskiold
Chief Financial Officer
and Member of the Board of Directors
18 February 2003

Consolidated Income Statement for the year ended 31 December

(All amounts are in millions of Slovak crowns)

	Notes	2002	2001
Revenue	13	18,840	20,110
Operating costs	14	(15,038)	(16,036)
Profit on sale of discontinued operations	15	15	-
Profit from operations		3,817	4,074
Share of results of joint venture	2	408	261
Profit on sale of subsidiary	2	54	-
Financial income – net	16	207	164
Profit before tax		4,486	4,499
Taxation	17	(1,018)	(577)
Net profit		3,468	3,922

The consolidated financial statements on pages 48 to 73 were authorised for issue on behalf of the Board of Directors on 18 February 2003 by:

Štefan Bugár
Deputy Chairman
of the Board of Directors

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

The notes on pages 48 to 73 form an integral part of these consolidated financial statements.

Consolidated Balance Sheet at 31 December

(All amounts are in millions of Slovak crowns)

	Notes	2002	2001
ASSETS			
Non-current assets			
Property, plant and equipment	1	42,862	43,226
Investments in joint venture	2	2,044	1,745
Investments held to maturity	3	-	737
Total non-current assets		44,906	45,708
Current assets			
Inventories	4	409	396
Assets held for sale	5	419	-
Investments held to maturity	3	282	-
Receivables and prepayments	6	3,335	3,648
Income tax prepayment		157	-
Cash and cash equivalents	7	12,711	12,512
Total current assets		17,313	16,556
Total assets		62,219	62,264
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	517	330
Retained earnings	8	8,669	7,096
Total share capital and reserves		46,846	45,086
Non-current liabilities			
Borrowings	9	5,322	6,470
Deferred tax	10	4,339	4,413
Other payables	20	352	43
Provisions	12	50	99
Total non-current liabilities		10,063	11,025
Current liabilities			
Trade and other payables	11	4,243	4,476
Income tax payable		-	1,066
Borrowings	9	793	259
Provisions	12	274	352
Total current liabilities		5,310	6,153
Total liabilities		15,373	17,178
Total equity and liabilities		62,219	62,264

The notes on pages 48 to 73 form an integral part of these consolidated financial statements.

Consolidated Statement of changes in shareholders' equity

(All amounts are in millions of Slovak crowns)

	Notes	Share capital	Share premium	Statutory reserve fund	Retained earnings	Total Equity
Year ended 31 December 2001						
At 1 January 2001						
– as previously reported		26,028	11,632	292	3,321	41,273
– effect of adopting IAS 39		-	-	-	(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
Year ended 31 December 2002						
At 1 January 2002		26,028	11,632	330	7,096	45,086
Dividends	8	-	-	-	(1,708)	(1,708)
Allocation to funds		-	-	187	(187)	-
Net profit for the year		-	-	-	3,468	3,468
At 31 December 2002		26,028	11,632	517	8,669	46,846

The notes on pages 48 to 73 form an integral part of these consolidated financial statements.

Consolidated Cashflow Statement at 31 December

(All amounts are in millions of Slovak crowns)

	Note	2002	2001
Net cash flows from operating activities	18	5,250	10,877
Cash flows from investing activities			
Proceeds from the disposal of subsidiary	2	59	2
Purchase of property, plant and equipment		(3,915)	(5,745)
Proceeds from sale of property, plant and equipment		124	48
Proceeds from non-current investment settlement		398	-
Investment income		83	85
Disposal of activity, net of cash disposed	15	139	-
Interest received		644	578
Net cash used in investing activities		(2,468)	(5,032)
Cash flows from financing activities			
Proceeds from long-term borrowings		-	439
Repayment of loans		(241)	(1,457)
Payment of finance lease liabilities		(40)	(96)
Interest paid		(594)	(775)
Dividends paid to group shareholders	8	(1,708)	-
Net cash from financing activities		(2,583)	(1,889)
Net increase in cash and cash equivalents		199	3,956
Cash and cash equivalents at 1 January		12,512	8,556
Cash and cash equivalents at 31 December		12,711	12,512

The notes on pages 48 to 73 form an integral part of these consolidated financial statements.

A YEAR OF CHANGE
A YEAR OF THE CUSTOMER
A YEAR OF INNOVATIONS AND MODERNISATION
A YEAR OF TEAM WORK
A YEAR OF SOCIAL RESPONSIBILITY
A YEAR OF FINANCIAL STABILITY

Accounting policies

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

(a) Basis of preparation

These consolidated financial statements have been prepared in accordance with and comply with International Accounting Standards ("IAS") for Slovenské telekomunikácie, a.s. ("the Company") and its subsidiary undertakings and joint venture, (together "the Group"). The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of derivative financial instruments.

(b) Accounting for subsidiaries, associates 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 Group shares control of the operations with its joint venture partners. Associate undertakings are those undertakings in which the Group has a significant influence, but which it does not control.

Equity accounting involves recognising in the income statement the Group's share of the associates' or joint ventures' profit or loss for the year. The Group's interest in such entities is carried in the balance sheet at an amount that reflects its share of the net assets and includes goodwill on acquisition. Unrealised gains on transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in such entities; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Equity accounting is discontinued when the carrying amount of the investment in an associated undertaking reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated undertaking.

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

Full consolidation involves the presentation of the consolidated financial statements in a way as of a single enterprise. All transactions, balances and unrealised surpluses and deficits on transactions within the Group have been eliminated in the consolidation. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies of the Group. Subsidiaries whose assets and activities are not material either individually, nor in aggregate, are not consolidated, but are included in the investments at costs.

(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 Group. 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
Software	2 to 5 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 2002, the management undertook a review of fixed assets in connection with restructuring and the re-focus on the core business. The review resulted in change of economic useful life of certain radio related equipment and the reclassification of certain assets from fixed assets to assets held for sale. Where the carrying amount of an asset is greater than its recoverable amount, it is written down immediately to its estimated recoverable amount.

Prior to 1 January 1994, the Group's fixed asset registers were maintained in accordance with Slovak tax legislation and therefore in order to calculate the accumulated depreciation, estimates have been made using the above useful economic lives. The estimated difference at 31 December 2002 reduced the accumulated depreciation balance by Sk 1.0 billion (2001: Sk 1.1 billion) from the values shown in the fixed asset records.

(d) Leased assets

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

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

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

A YEAR OF CHANGE A YEAR OF THE CUSTOMER A YEAR OF INNOVATIONS AND MODERNISATION A YEAR OF TEAM WORK A YEAR OF SOCIAL RESPONSIBILITY A YEAR OF FINANCIAL STABILITY

(e) Investments

At 1 January 2001 the Group adopted IAS 39 and classified its investments into following categories: held-to-maturity, available-for-sale and trading investments. The classification is dependent on the purpose for which the investments were acquired. Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale, these are included in non-current assets unless management has the 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 Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Available-for-sale investments and trading investments are subsequently carried at fair value, whilst held-to-maturity investments are carried at amortised cost using the effective yield method. Realised gains and losses arising from changes in the fair value of available-for-sale investments are included in the income statement in the period in which they arise.

During the period the Group did not hold any investments classified as trading investments or available for sale investments.

(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 selling expenses. Provision is made against slow-moving and obsolete inventories.

(g) Trade receivables

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

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

(h) Cash and cash equivalents

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

(i) Borrowings

Borrowings 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 Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Costs related to the ongoing activities of the Group are not provided in advance.

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

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

(k) Revenue recognition

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

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

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

(l) Operating costs

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

(m) Marketing costs

Marketing costs are charged to expense as incurred.

(n) Dividends

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

(o) 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.

(p) 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.

(q) Deferred income taxes

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

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

(r) Social security and pension schemes

The Group makes contributions to the Government's health, retirement benefit and unemployment schemes at the statutory rates in force during the year, based on gross salary payments. Throughout the year, the Group made contributions amounting to 38% (2001: 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% (2001: 12.8%). The cost of these payments is charged to the income statement in the same period as the related salary cost.

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

(s) Employee benefits

In accordance with an annually renegotiated collective labour agreement, the Group is required to pay on retirement an amount of between Sk 24,000 and Sk 65,000 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 Group is not under a legal or constructive obligation to continue providing such benefits beyond the period of such agreement and therefore no provisions beyond the period of agreement are recognised.

(t) Comparatives

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

Financial risk management

(1) Financial risk factors

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

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

(ii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group policy is to maintain approximately 70% of its borrowings in fixed rate instruments. At the year end 2002 88% (2001 88%) was at fixed rates. The Group uses interest rate swaps to optimise the portion of fixed to floating interest rate ratio based on current market conditions with the aim to reach 70% ratio. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly semiannually), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

(iii) Credit risk

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

(2) Accounting for derivative financial instruments and hedging activities

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

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

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

The Group does not have any fair value hedges or cash flow hedges at 31 December 2002, which qualify for hedge accounting under the rules in IAS 39.

Certain derivative transactions, which provide effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting under the rules in IAS 39. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IAS 39 are recognised immediately in the income statement. The fair value is periodically reviewed and any change in fair value is transferred to the income statement. 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 forecast transaction ultimately is recognised in the income statement. However, if a committed or forecast 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 20.

(3) Fair value estimation

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

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

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

Notes to the consolidated financial statements

(All amounts are in millions of Slovak crowns)

1 Property, plant and equipment

	Land and Buildings	Duct, cable and other outside plant	Telephone exchanges and related equipment	Radio and transmission equipment	Other fixed assets	Capital work in progress including advances (CIP)	Total
At 1 January 2002							
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
Opening net book amount	5,638	16,907	16,448	1,532	2,298	403	43,226
Additions	-	-	-	-	-	5,789	5,789
Transfer from CIP	194	686	2,717	191	1,095	(4,883)	-
Disposals	(87)	-	-	(8)	(10)	-	(105)
Discontinued operation (Note 15)	(6)	(1)	(21)	-	(93)	-	(121)
Transfers to assets held for sale (Note 5)	(371)	-	(36)	-	(12)	-	(419)
Depreciation charge (Note 14)	(76)	(765)	(3,608)	(435)	(599)	(25)	(5,508)
Closing net book value	5,292	16,827	15,500	1,280	2,679	1,284	42,862
At 31 December 2002							
Cost	6,891	25,306	35,072	4,588	6,279	1,324	79,460
Accumulated depreciation	(1,599)	(8,479)	(19,572)	(3,308)	(3,600)	(40)	(36,598)
Net book value	5,292	16,827	15,500	1,280	2,679	1,284	42,862

During 2002, the management undertook a review of fixed assets in connection with a re-focus on the core business. The review resulted in:

(i) the change of economic useful life of certain radio related equipment. The additional depreciation of Sk 127 million is included in total depreciation charge (Note 14);
(ii) the transfer of certain fixed assets to assets held for sale. (Note 5).

The Group will continue to conduct such reviews.

Assets subject to finance lease with a net book value of Sk 73 million (2001: Sk 163 million) are included in "other fixed assets".

No land or buildings were pledged as collateral as of 31 December 2002 and 2001.

(All amounts are in millions of Slovak crowns)

2 Investments in subsidiaries and joint ventures

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

	Country of incorporation	Interest in capital %	Activities	Method of consolidation
Subsidiaries				
RK Tower, s.r.o.	Slovak Republic	100% (2001: -)	Broadcasting	Full
RK Transmission, s.r.o.	Slovak Republic	100% (2001: -)	Broadcasting	Full
Joint venture				
EuroTel Bratislava, a.s.	Slovak Republic	53% (2001: 53%)	Wireless telephony services	Equity accounting

In May 2002 the Group sold its share in the subsidiary Telemont Slovensko, s.r.o. (Note 15).

On 21 February 2002, the Group founded a 100% subsidiary Nehnuteľnosti, s.r.o. with share capital of Sk 0.2 million. On 5 April 2002, the Group sold Nehnuteľnosti, s.r.o.

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

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

	Joint venture
At 1 January 2002	
Cost	1,641
Share of profit (loss)	104
Opening net book value	1,745
Share of profit before tax	408
Share of income tax (Note 17)	(109)
Closing net book value	2,044
At 31 December 2002	
Cost	1,641
Share of profit (loss) net	403
Closing net book value	2,044

(All amounts are in millions of Slovak crowns)

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

	2002	2001
Non-current assets	4,607	3,197
Current assets	2,141	3,058
	6,748	6,255
Non-current liabilities	(3,478)	(3,389)
Current liabilities	(1,146)	(1,036)
	(4,624)	(4,425)
Net assets	2,124	1,830
Sales	4,663	3,891
Income before tax	408	261
Income taxes	(109)	(104)
Profit after tax	299	157
Proportionate interest in joint venture commitments	122	158

The average number of employees in the joint venture in 2002 was 1,060 (2001: 923).

3 Investments held to maturity

	2002	2001
Debt securities	282	737

Debt securities amounting to Sk 282 million (2001: Sk 737 million) are U.S. Dollar and SKK denominated Slovak Government guaranteed bonds maturing within one year from 31 December 2002. The bonds pay interest at a fixed rate of 9.5% to 12.0% and were purchased at a premium ranging from 0.5% to 4.9% to their nominal value.

Maturity of bonds is as follows:	2002	2001
2002	-	385
2003	282	352
	282	737

In 2001, the Group classified all investments as non-current assets. In 2002, investments with maturity of less than one year were classified as current assets.

	2002	2001
Weighted average of interest earned	10.02%	9.39%

(All amounts are in millions of Slovak crowns)

4 Inventories

	2002	2001
Cable	74	83
Engineering	285	283
Other	50	30
	409	396

The inventory items are shown after slow-moving provision of Sk 165 million (2001: Sk 214 million).

5 Assets held for sale

	2002	2001
Property – real estate (Note 1)	371	-
Related equipment (Note 1)	48	-
	419	-

As a consequence of the restructuring of the Group (Note 12) certain items of property are no longer required for the purposes for which they were originally purchased. The assets held for sale are carried at their recoverable amount.

6 Receivables and prepayments

	2002	2001
Domestic trade receivables	2,403	1,823
Foreign trade receivables	323	1,089
Amounts due from related parties (Note 21)	155	369
Other receivables	406	298
Prepayments	48	69
	3,335	3,648

All receivables fall due within one year. Trade receivable are shown after a provision for impairment of Sk 757 million (2001: Sk 1,074 million).

Foreign trade receivables and amounts due from related parties at 31 December 2002 include amounts due from international operators providing carrier services after set-offs with accounts payable to the same operator, in the amount of Sk 355 million and Sk 150 million respectively. The amounts at 31 December 2001 are shown gross. The offsetting would require adjustment of Sk 601 million and Sk 178 million respectively. (Note 11)

(All amounts are in millions of Slovak crowns)

7 Cash and cash equivalents

	2002	2001
Cash	11,459	12,512
Cash equivalents	1,252	-
	12,711	12,512

The cash balance of the Group at 31 December 2002 includes Sk 11,179 million (2001: Sk 12,199 million) held in interest-bearing deposits on terms of less than three months. The cash equivalents contain a short-term security on terms of less than three months. There was no cash balance with restricted use as at 31 December 2002 and 2001.

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 2002 the Group had authorised 26,027,500 ordinary shares (2001: 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. In 2002, the Group transferred 5% of prior year statutory profit to the reserve fund.

On 3 July 2002 a dividend in respect of 2001 of Sk 1,708 million was approved by General meeting. No dividends were declared in respect of 2002.

9 Interest bearing borrowings

	2002	2001
International Financial Institution loans	6,082	6,663
Finance lease obligations	33	66
Total interest bearing borrowings	6,115	6,729
Less Current portion of interest bearing borrowings	(793)	(259)
Long term portion of interest bearing borrowings	5,322	6,470

(All amounts are in millions of Slovak crowns)

Repayments of the long term portion of interest bearing borrowings fall due as follows:

	2002	2001
Between one and two years	683	781
Between two and five years	2,821	2,223
After five years	1,818	3,466
	5,322	6,470

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

As of 31 December 2002 and 2001, there are no assets pledged as collateral for borrowings.
At 31 December 2002, the Group has total undrawn loan facilities available of Sk 200 million (2001: Sk 502 million). The facility is available for the period till 31 December 2003.

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

	2002	2001
Carrying amount	6,115	6,729
Fair value	6,387	6,906

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 2002:

	2002	2001
Euro and EU member currencies	5,225	4,882
Slovak crowns	890	1,847
	6,115	6,729

The Group is exposed to foreign exchange risk related to foreign currency debt and foreign exchange payments. Further, the Group's major financial market risk exposure is interest rate 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 20).

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 2002:

	2002	2001
Fixed	5,383	5,962
Floating	732	767
	6,115	6,729

The average effective borrowings cost (total interest payable and other charges for Group's loans and borrowings) for the year ended 31 December 2002 were 5.2% (2001: 6.4%).

(All amounts are in millions of Slovak crowns)

10 Deferred tax

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

	2002	2001
At beginning of year	4,413	5,188
Effect of applying IAS 39 at 1 January 2001	-	(45)
Capitalised loan to EuroTel	-	(39)
Impact of change in the tax rate from 29% to 25% (Note 17)	-	(706)
Charge to income for the year	(74)	15
At end of year	4,339	4,413

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

	31 December 2001	Credited/charged to income	31 December 2002
Accelerated tax depreciation	4,736	(86)	4,650
Unrealised foreign exchange gains/losses	(202)	47	(155)
Bad debt provision	-	(59)	(59)
Restructuring (Note 12)	(57)	(12)	(69)
Fair value of swaps (Note 20)	(14)	7	(7)
Onerous contract (Note 12)	(54)	54	-
Leasing	11	(9)	2
Unpaid cash-based services	(7)	(13)	(20)
Retirement obligation	-	(3)	(3)
Net deferred tax (asset) liability	4,413	(74)	4,339

	2002	2001
Deferred tax assets to be recovered after more than one year	(119)	(214)
Deferred tax liabilities to be settled after more than one year	4,333	4,656
	4,214	4,442

11 Trade and other payables

	2002	2001
Amounts due within one year		
Domestic trade payables	2,867	2,201
Foreign trade payables	229	715
Amounts due to employees	270	403
Payables to related parties (Note 21)	66	326
Accruals and other payables	751	658
Fair value of swaps (Note 20)	60	173
	4,243	4,476

Foreign trade payables and payables to related parties include amounts due from international operators providing carrier services. (Note 6)

(All amounts are in millions of Slovak crowns)

12 Provisions

	Onerous contract	Restructuring	Legal claims	2002 Total	2001 Total
Opening carrying amount	213	238	-	451	320
Additional provisions (Note 14)	-	317	50	367	556
Unused amount reversed	(203)	-	-	(203)	-
Amount used	(10)	(281)	-	(291)	(425)
Closing carrying amount	-	**274**	**50**	**324**	451
Non -current liabilities	-	-	50	50	99
Current liabilities	-	274	-	274	352
	-	**274**	**50**	**324**	451

The Group has signed a business contract for rent of satellite transponders. Provision was created in 2001 to cover the unavoidable costs of meeting the obligation under the contract in excess of the expected benefits. During 2002 the Group has concluded new business contracts generating additional revenue in the following years. The provision was reversed accordingly.

The restructuring of the Group's operations will result in the loss of 1,450 jobs in 2003. An agreement has been reached with the local union representatives based on a detailed formal plan that specifies the number of staff involved, location and function. The amount payable to staff to be made redundant was calculated using the method agreed with trade unions. The full amount of these costs to be incurred has been recognised in the current period. The termination benefits are expected to be paid within 12 months from 31 December 2002.

The amounts shown include a provision in respect of certain legal claims brought against the Group. In the opinion of directors, after taking appropriate legal advice, the outcome of these legal claims will not result in any significant loss beyond the amounts provided at 31 December 2002.

13 Revenue

Reporting by product cluster	2002	2001
Traffic charges	9,108	10,209
Access fees	3,729	3,450
Voice total	12,837	13,659
Value added services	555	660
Data services	1,637	1,522
Terminal equipment	276	351
Fixed network total	15,305	16,192
Carrier Services	2,321	2,693
Online	132	72
Broadcasting	810	832
Other	272	321
	18,840	20,110

Other revenue includes revenue from construction and rental activities and other telecom related services.
Revenues for the year ended 31 December 2002 include Sk 862 million of revenues from the joint-venture company (2001: Sk 756 million). Revenue from carrier services in 2002 includes Sk 325 million from other related parties (2001: Sk 524 million).

(All amounts are in millions of Slovak crowns)

14 Operating costs

	2002	2001
Staff costs	3,385	4,000
Material and equipment	1,008	1,395
Depreciation (Note 1)	5,508	5,457
Network operators	3,167	3,644
Energy costs	348	344
Repairs and maintenance	421	388
Legal and consulting fees	277	339
Value added services	122	98
Foreign exchange differences (net)	(23)	(7)
Restructuring costs (Note 12)	317	343
Provision for onerous contract (Note 12)	(203)	213
Provision for bad and doubtful debts and write offs	(193)	130
Marketing	328	284
Postal expenses	199	191
Other costs	1,309	1,415
	15,970	18,234
Own work capitalised	(932)	(2,198)
	15,038	16,036

Costs for network operators services include Sk 933 million (2001: Sk 1,108 million) of costs incurred to the joint-venture and costs to international network operators of Sk 261 million incurred to other related parties (2001: Sk 397 million).

Staff costs include Sk 444 million (2001: Sk 542 million) of contributions to social security scheme and Sk 3 million (2001: Sk 5 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.

A YEAR OF CHANGE A YEAR OF THE CUSTOMER A YEAR OF INNOVATIONS AND MODERNISATION A YEAR OF TEAM WORK A YEAR OF SOCIAL RESPONSIBILITY A YEAR OF FINANCIAL STABILITY

(All amounts are in millions of Slovak crowns)

15 Discontinued operation

In May 2002 the Group sold its share in subsidiary Telemont Slovensko, s.r.o. Subsequently, on 1 June 2002 the Group sold the construction activity to Telemont Slovensko, s.r.o. The sales, results, cash flows and net assets of the construction activity were as follows:

	5 months 2002	12 months 2001
Sales	35	83
Operating costs	(41)	(120)
Operating (loss)/profit	(6)	(37)
Finance costs	-	-
(Loss)/profit before tax	(6)	(37)
Tax	-	-
(Loss)/profit after tax	(6)	(37)
Operating cash flows	88	59
Investing cash flows	-	(4)
Financing cash flows	-	-
Total cash flows	88	55

	At 1 June 2002	At 31 Dec 2001
Property, plant and equipment (Note 1)	121	134
Current assets	5	138
Total assets	126	272
Total liabilities	(2)	(60)
Net assets	124	212

The loss/profit on disposal was determined as follows:

Net assets sold	124	
Proceeds from sale	139	
Profit (Loss) on disposal	15	

The net cash inflow on sale is determined as follows:

Proceeds from sale	139	
Less: cash and cash equivalents in activity sold	-	
Net cash inflow on sale	139	

(All amounts are in millions of Slovak crowns)

16 Financial income - net

	2002	2001
Interest expense		
International Financial Institutions loans	(307)	(379)
Foreign supplier loans	-	(16)
Interest payable arising on interest rate swaps	(120)	(287)
Finance leases	(7)	(16)
Commitment fees and other financial expense	(95)	(56)
Net foreign exchange gains (losses)	382	25
Total interest payable and other charges	(147)	(729)
Borrowing costs capitalised	-	2
Borrowing expense total	(147)	(727)
Change in Fair-value and settlement impact of swaps (Note 20)	(183)	245
Interest income on short term deposits	644	676
Interest income from debt securities held (Note 18)	73	67
Net foreign exchange gains (losses)	(180)	(97)
Net financial income (expense)	207	164

17 Taxation

	2002	2001
Current tax charge	983	1,164
Deferred tax (income) charge (Note 10)	(74)	(691)
Share of income tax of joint venture (Note 2)	4	5
Share of deferred tax of joint venture (Note 2)	105	99
	1,018	577

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

	2002	2001
Net profit before tax	4,486	4,499
Income tax calculated at 25% (2001; 29%)	1,121	1,305
Change in tax rate – deferred tax effect (Note 10)	-	(706)
Effect of income not taxable	(160)	(269)
Effect of expenses not deductible for tax purposes	109	253
Over-provision in respect of previous years	(52)	(6)
	1,018	577

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

(All amounts are in millions of Slovak crowns)

18 Net cash flows from operating activities

	2002	2001
Net profit	3,468	3,922
Adjustments for:		
Income tax	1,018	577
Depreciation (Note 1,14)	5,508	5,457
Investment income (Note 16)	(73)	(67)
Interest (income) expense net	69	(173)
Share of results of associates and joint ventures (Note 2)	(408)	(261)
(Profit)/loss on disposals on fixed assets	(73)	35
(Profit)/loss on disposal of discontinued operation (Note 15)	(15)	-
Net foreign exchange (gains) losses	(351)	72
Provision charge (Note 12)	(127)	131
Operating profit before working capital changes	9,016	9,693
Decrease/(increase) in trade and other receivables	302	(278)
(Increase)/decrease in inventories	(15)	34
(Decrease)/increase in trade and other payables	(1,846)	350
Cash generated from operations	7,457	9,799
Income taxes (paid)/ received	(2,207)	1,078
Net cash flows from operating activities	5,250	10,877

19 Commitments

Capital commitments

The Group had the following capital commitments at 31 December:

	2002	2001
Capital expenditure that has been contracted for but has not been provided for in the consolidated financial statements	1,109	959

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

The shared joint venture commitments are shown in Note 2.

(All amounts are in millions of Slovak crowns)

20 Financial instruments

Movements in derivatives during the year ended 31 December 2002.

	Cross currency swap	Interest rate swap	Total
At 1 January 2002			
Fair value	221	(5)	216
Deferred income tax (Note 10)	(32)	18	(14)
	189	13	202
Movements during the year:			
Settlement of swaps (Note 16)	(125)	18	(107)
Change in fair value (Note 16)	303	(13)	290
Deferred income tax (Note 10)	25	(18)	7
Net balance at 31 December 2002	392	-	392
Non current liabilities	339	-	339
Current liabilities (Note 11)	60	-	60
Deferred income tax (Note 10)	(7)	-	(7)
Net balance at 31 December 2002	392	-	392

Upon the adoption of IAS 39 the Group recognised the above derivatives as not qualified for hedge accounting and measured them at fair value.

Interest rate swaps

The Group 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. Interest rate swaps matured in 2002.

Cross currency swaps

The Group 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 2002 the outstanding principal amounts payable by the Group under cross currency interest rate swaps were Sk 857 million and EUR 42 million. The Group expects to receive the income at variable interest rates and to pay an expense at fixed and variable interest rates. At 31 December 2002 the interest rates receivable vary from 1.49% to 2.804% and interest rates payable vary from 3.014% to 9.15%. Cross currency interest rate swaps mature in 2003 and 2010.

(All amounts are in millions of Slovak crowns)

21 Related party transactions

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

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

	Receivables		Payables		Revenues		Expenses	
	2002	2001	2002	2001	2002	2001	2002	2001
EuroTel	65	66	55	68	862	756	948	1,108
Deutsche Telecom	83	258	2	222	243	363	429	436
Other	7	45	9	36	82	161	167	106
Directors	-	-	-	-	-	-	3	5
Total	155	369	66	326	1,187	1,280	1,547	1,655

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

22 Contingencies

The Group is in legal proceedings in the normal course of business and regulatory proceedings initiated by the Anti-Monopoly office of the Slovak Republic regarding the dominant position of Slovenské telekomunikácie, a.s. on the telecommunications market. Management is confident that the Group will suffer no material loss as a result of such proceedings and therefore no provision was made in respect of these disputes in excess of the provision already recorded in the consolidated financial statements (Note 12).

The Group's joint venture EuroTel is in legal proceedings in the normal course of business including one 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.

23 Post balance sheet events

Changes in top management
Mr. Miroslav Majoroš became the new Chief Executive Officer of Slovenské telekomunikácie, a.s. at 1 January 2003. He was appointed to the position by Board of Directors at the meeting held on 9 December 2002.

Liberalisation
At 1 January 2003 the voice service monopoly position of Slovenské telekomunikácie, a.s. in the public fixed telecommunications network ended on the basis of the Telecommunication Act No. 195/2000 Coll.

At 2 January 2003 the Group has submitted the interconnection prices proposal and the Reference Interconnection Offer to the Telecommunications Office of the Slovak Republic. The Reference Interconnection Offer represents the basis for negotiations on interconnection with new operators that have been granted a licence for provisioning of public telephone service after 1 January 2003.

The end of the monopoly position of Slovenské telekomunikácie, a.s. caused new responsibilities for the Group. One such responsibility is to provide the access customers with the possibility to choose their conveyance carrier either by the means of the carrier pre-selection or by the means of the call-by-call selection. Slovenské telekomunikácie, a.s. continues to provide the Universal telecommunications service, i.e. a minimum set of services, which are available at a specified quality to all users in the whole territory of the country at an affordable price.

The price regulation continues to be based on the price basket. The Group was defined as the operator with the significant influence on the voice service and the leased line market.

Change of VAT rate
The value added tax rate applicable for telecommunications services has changed from 23% to 20% according to VAT Act No. 289/1995 Coll. and Act No. 637/2002 Coll. effective from 1 January 2003.

Introduction of the new technology
At 22 January 2003, Slovenské telekomunikácie, a.s., started testing of ADSL (Asymetric Digital Subscriber Line) technology with certain Internet service providers.

Report of the auditors

We have audited the accompanying consolidated balance sheet of Slovenské telekomunikácie, a.s. ("the Company") and its subsidiaries and joint venture ("the Group") at 31 December 2002, and the related consolidated statements of income, cash flows and changes in shareholder's equity for the year then ended. These financial statements set out on pages 48 to 73 are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group at 31 December 2002, and the consolidated results of its operations and cash flows for the year then ended in accordance with International Accounting Standards.

PricewaterhouseCoopers

Bratislava, Slovak Republic

18 February 2003

Proposal for profit distribution for the year 2002 approved by corporate bodies is as follows:

Profit after tax (in accordance with Slovak Accounting Standards)	SKK 3,213m
Distribution to funds:	
– Reserve fund	SKK 321m
– Social fund	SKK 15m
Retained earnings	SKK 2,877m