

Annual Report 2005



In 2005, the Board of Directors of Slovak Telekom, a. s. approved the change of its business name, corporate brand and the launch of a new business brand, taking effect as of 8 March 2006. The change of business name to Slovak Telekom, a. s. and the launch of the new business brand T-Com is a natural move towards outwardly identifying ourselves with one of the largest global telecommunications operators, Deutsche Telekom AG.

This introduction of a new corporate identity based on a global brand is a natural step in Slovak Telekom's development.

Although the business name has changed, all rights and obligations in relation to customers and partners, contractual and statutory, remain unchanged and preserved.



When you do something with passion, it is a real fun. The most beautiful thing about passion is that it can inspire others. Our passion is to make life more entertaininig.

Key Performance Indicators

Slovak Telekom Group: Key Performance Indicators (SKK mill)

	2000	2001	2002	2003	2004	2005
Total revenues	18,370	20,110	18,840	17,776	16,844	29,204
EBITDA (Earnings Before Finance Costs, Tax, Depreciation and Amortisation)	7,525	9,532	9,379	8,408	7,691	12,808
EBIT (Earnings Before Finance Costs and Tax)	3,041	4,074	3,817	2,627	1,193	2,950
EBT (Earnings Before Tax)	770	4,395	4,486	3,633	2,588	2,678
Net income	219	3,922	3,468	3,749	2,307	1,989
	2000	2001	2002	2003	2004	2005
Total assets	58,649	62,264	62,219	64,103	77,823	72,350
Property, plant and equipment	45,080	45,707	44,906	44,659	47,210	44,963
Equity	41,273	45,068	46,846	48,539	55,625	53,323
Total liabilities	17,376	17,196	15,373	15,564	22,198	19,027
Investment expenditures	5,325	6,070	5,789	5,177	6,382	6,821
	2000	2001	2002	2003	2004	2005
EBITDA margin (%)	41.0	47.4	49.8	47.3	45.7	43.9
Operating margin (%)	16.6	20.3	20.3	14.8	7.1	10.1
Net income margin (%)	1.2	19.5	18.4	21.1	13.7	6.8
CAPEX/revenues (%)	29.0	30.2	30.7	29.1	37.9	23.2
ROA (Net income/Total assets) (%)	0	6	6	6	3	2.7
ROE (Net income/Equity) (%)	1	9	7	8	4.1	3.7

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Milestones 2005

January

- Slovak Telekom, a. s. launched the innovated National Management Centre into operation.
- The President of Slovak Telekom, a. s., Miroslav Majoroš, became the president of the Business Leaders Forum.
- Slovak Telekom, a. s. established the Commercial Call Centre, o. z. branch.

February

- Slovak Telekom, a. s. added information on T-Mobile Slovensko, a. s. subscribers' numbers of to the information provided on the number 1181.
- Slovak Telekom, a. s. introduced the SMS messaging service from fixed lines to the mobile network of Orange Slovensko.
- The portal www.zoznam.sk became one of the founding members of the newly established Internet Media Association.
- The zoznam.sk portal launched the successful web site www.bleskovky.sk.

March

- Slovak Telekom, a. s. signed the first interconnection agreements with alternative operators. In total eight agreements on network interconnection were signed by the end of the year.
- Slovak Telekom, a. s. started the 2nd annual eTablo 2005 contest.
- Slovak Telekom, a. s. increased ST DSL transmission speeds.
- ST DSL customer base exceeded 50,000.
- T-Mobile Slovensko, a. s. (EuroTel Bratislava, a. s.) began to offer the Internet Non-stop service.

April

- Slovak Telekom, a. s. launched the Games (www.games.t-station.sk) Internet portal.
- Szabolcs Gáborjáni-Szabó was appointed the new CFO of Slovak Telekom, a. s.
- Slovak Telekom, a. s. introduced ST DSL self-installation packages onto the market.

May

- Our subsidiary EuroTel Bratislava, a. s. rebranded to T-Mobile Slovensko, a. s.
- Commercial Call Centre, o. z. gained its first international client.
- Rádiokomunikácie, o. z. won the tender for terrestrial digital broadcasting in Bratislava.
- Slovak Telekom, a. s. launched the new Business CityNET service.
- Slovak Telekom, a. s. was granted the Via Bona Slovakia 2004 award in the field of corporate social responsibility for its PCs for Schools project.
- Slovak Telekom, a. s. won top awards in the advertising effectiveness competition EFFIE Slovakia.
- Slovak Telekom, a. s. launched the service of SMS messaging from fixed lines to the mobile network of T-Mobile Slovensko, a. s.
- T-Mobile Slovensko, a. s. expanded its product with new Relax programmes.

June

- Slovak Telekom, a. s. initiated www.kazdom.veku, its educational project aimed at supporting Internet literacy.
- Miroslav Majoroš, the President of Slovak Telekom, a. s., was appointed Chairman of Slovak Telekom's Board of Directors.
- T-Mobile Slovensko, a. s. launched the Global Roaming service.

August

- Slovak Telekom, a. s. successfully made its first network interconnect with alternative operators' networks.
- Slovak Telekom, a. s. submitted its Reference Interconnection Offer and Reference Unbundling Offer to the Telecommunications Office of the Slovak Republic.
- Slovak Telekom, a. s. acquired Zoznam, s. r. o. and Zoznam Mobile, s. r. o.
- T-Mobile Slovensko, a. s. announced further increases in WiFi data service penetration in Slovakia.

September

- Slovak Telekom, a. s., opened the 2nd annual Žiacka knižka 2005 and eČasopis 2005 contests for primary and secondary school pupils.
- Slovak Telekom, a. s. announced the preparations of the wholesale model of the ADSL Partner service.
- Slovak Telekom, a. s. introduced a new internet magazine – www.t-station.sk.

October

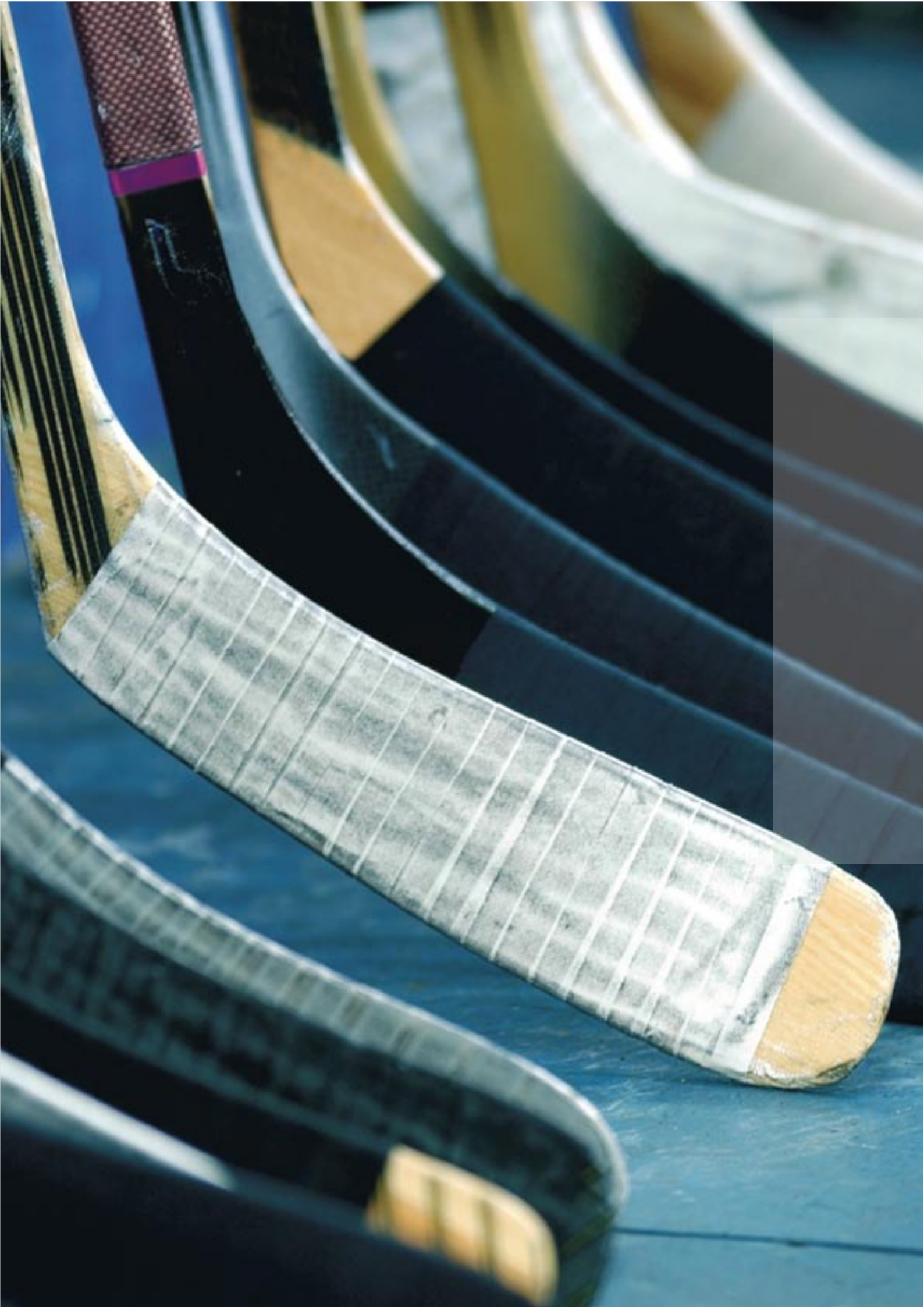
- The jury of the prestigious World Communication Awards 2005 gave Highly Commended honours to Slovak Telekom, a. s. for its PCs in Schools project.
- Slovak Telekom, a. s. expanded its business activities to the Middle East region, providing consultancy services.
- Slovak Telekom, a. s. launched the Video on Demand service at the www.t-station.sk portal.
- T-Mobile Slovensko, a. s. was the first operator in the world to launch the FLASH-OFDM technology – the Fast Internet service.

November

- Rádiokomunikácie, o. z. started pilot digital TV broadcasting in Bratislava.
- Slovak Telekom, a. s. won the Golden Stone award for 2 advertising campaigns “Even the wise get it wrong” and “Soup Opera II”.
- Slovak Telekom, a. s. launched the SMS messaging service from fixed lines to foreign mobile networks.
- The General Assembly of the European Telecommunications Network Operators’ Association (ETNO), a forum for the main fixed line operators in Europe, was held. Pavol Kukura, Slovak Telekom representative, was elected the chairman of the ETNO General Assembly for 2006.
- Slovak Telekom, a. s. received the IT Firm of the Year 2005 award for best IT company of 2005.

December

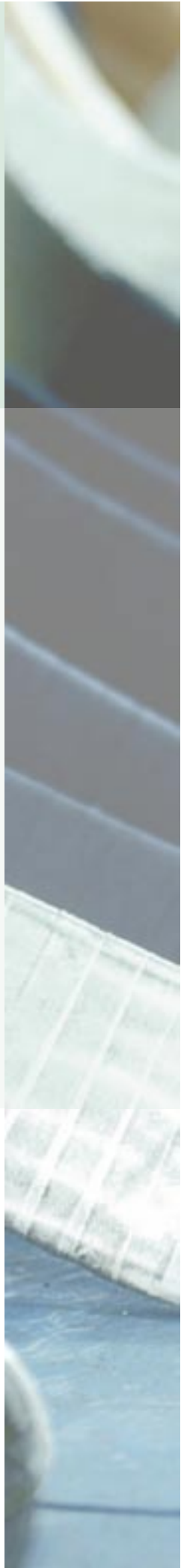
- The number of ST DSL customers rose above 100,000.
- ST DSL was available to more than 3.8 mill. inhabitants in almost 700 towns and villages.
- The customer base of our subsidiary T-Mobile Slovensko, a. s. exceeded 2 million.
- The Internet portal www.zoznam.sk was visited by more than 900,000 unique visitors per month.



A passion for teamwork

■ Slovak Telekom Group

The foundation of any team is respect. Only mutual respect and cooperation make it possible for us to see the needs of our customers.



Slovak Telekom Group

In 2005 in line with our strategy we realised the acquisition of two companies and, to support the growth of new business opportunities, we established a new branch.

The Annual Report 2005 thus presents results and achievements of the Slovak Telekom Group as a full service operator.

Slovak Telekom Group comprises the parent company Slovak Telekom, a. s. and its subsidiaries T-Mobile Slovensko, a. s., RK Tower, s. r. o., RK Transmission, s. r. o. (in liquidation), Zoznam, s. r. o., Zoznam Mobile, s. r. o. and TBDS, a. s. The Company also comprises branches; Rádiokomunikácie, o. z. and Commercial Call Centre, o. z.

The strategy for these companies' operations is to provide a broad array of modern and inter-complementary communications solutions based on cutting-edge technologies, professional experience and a specialised approach to the individual needs of our customers.

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

Our Vision

To be the most reliable and customer-friendly service company integrating the communication and information worlds, and to contribute to the positive development of Slovakia and the quality of life here.

Corporate Identity

In 2005, the Board of Directors of Slovak Telekom, a. s. approved the change of its business name, corporate brand and the launch of a new business brand, taking effect as of 8 March 2006. The change of business name to Slovak Telekom, a. s. and the launch of the new business brand T - Com is a natural move towards outwardly identifying ourselves with one of the largest global telecommunications operators, Deutsche Telekom. By changing the brand and corporate identity we not only declare our affiliation to the group, but this change is manifested also in the scope and quality of services provided. The objective of the change in corporate identity is to support the company's transformation to a next generation operator capable of satisfying the communication needs of a 21st century customer.

The magenta T – an unmistakable graphic sign of the companies forming the global group of Deutsche Telekom – is represented in the Slovak market by two strong telecommunications operators – Slovak Telekom, a. s. and T-Mobile Slovensko, a. s.

The magenta T stands for values in the two companies' operations, which apply also in the international context – high quality of services provided, excellence in customer care and continual product innovation aimed at making the life of our customer better, more entertaining and pleasant.

Our Mission

Our Mission is:

- to be personally responsible for each customer call, understand customer needs, deliver what we promise and constantly improve our services with the aim of being seen as the most affordable, reliable and innovative partner for our customers;
- to utilise our know-how in integrating services as a benefit for our customers, making their business and private lives easier;
- to provide state-of-the-art telecommunications infrastructure and products enabling business growth in our country and to improve the position of the Slovak Republic in the region;
- to be together responsible for the economic growth of our company;
- to attract, motivate and develop capable and committed employees and reward employees' performance.

In our work we follow T-SPIRIT, the set of values identical for all companies forming the Deutsche Telekom Group:

- Superior value
- Passion for our customers
- Innovation
- Respect
- Integrity
- Top excellence

We are a group operating on international markets and in a multicultural environment. Shared values are our common bond. In our work, we put our customer's needs first; all other aspects are subordinated to our customer's needs. Innovation and creativity in solutions drive us forward, ensuring our long-term prospects and position in the market.

Slovak Telekom Group Profile

Slovak Telekom Group comprises the following companies:

Slovak Telekom, a. s.

T-Mobile Slovensko, a. s.

RK Tower, s. r. o.

RK Transmission, s. r. o. (in liquidation)

TBDS, a. s.

Zoznam, s. r. o.

Zoznam Mobile, s. r. o.

branches of Slovak Telekom:

Rádiokomunikácie, o. z.

Commercial Call Centre, o. z.

Slovak Telekom Group is composed of strong market players that are leaders in their field. Our goal is to provide overall communications services for residential as well as business customers. In doing so, we achieve synergy effects in utilising technologies, cooperating closely in designing tailor-made customer solutions and in developing new products and services.

Slovak Telekom, a. s.

We are a modern and dynamically developing company with many years' tradition in the Slovak telecommunications market. Our majority shareholder is Deutsche Telekom AG, one of the largest telecommunications operators worldwide, whose activities rank the company among leading innovators in the field of telecommunications and information technologies. Slovak Telekom is the leading company in providing cutting-edge telecommunications services in Slovakia. The Company owns and operates a telecommunications network covering the entire territory of Slovakia; we provide national and international voice services, as well as a broad portfolio of data services. Slovak Telekom is the leader in providing broadband internet access and is a dynamically developing operator providing services in the field of internet entertainment content.

Registered office:

Námestie slobody 6, 817 62 Bratislava 15

Legal form:

joint-stock company

Date of incorporation:

1 April 1999

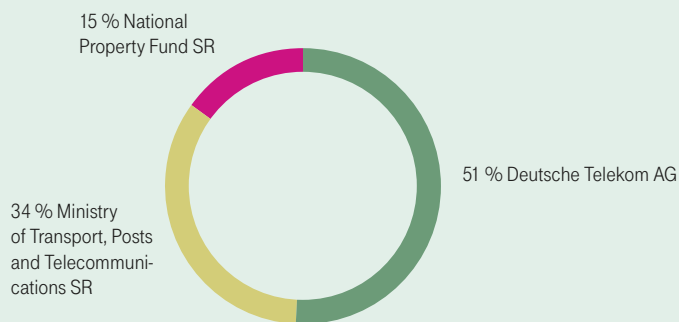
Principal business activities of the Company:

- transmission, broadcasting and reception of radio, television and other communication signals for statutory operators and operators holding relevant licences,
- provision of telecommunication and radio-communication services against payment (transmission, processing, creation and mediation of information) for individuals and legal entities,
- establishment, operation, construction, maintenance, and servicing of telecommunications facilities, networks, and information technologies owned by other entities under concluded contracts,
- performance of activities related to the preparation and performance of tasks in emergency situations and during a state of military alert in line with the orders of competent authorities,
- preparation and updating of information databases for information systems in the telecommunications sector,
- publishing, distribution and sale of directories of subscribers of individual telecommunications services (on various media),
- connection of a specific part of the public telecommunications network to the international telecommunications network, concluding of international agreements in telecommunications related to the business activities of Slovak Telekom, proposing prices and tariffs for domestic and international services, including billing and clearing thereof.

Shareholder structure

The majority shareholder of Slovak Telekom is Deutsche Telekom AG with 51% of the shares. The Ministry of Transport, Posts and Telecommunications of the Slovak Republic owns 34 % of the shares, and the National Property Fund owns 15 % of the shares.

Shareholder structure Slovak Telekom, a. s.



T-Mobile Slovensko, a. s.

T-Mobile Slovensko, a. s. (until 2 May 2005 EuroTel Bratislava, a. s.) is a leading telecommunications company providing mobile and mobile data communications services in Slovakia. The company operates five networks – a public data network, an NMT analogue network, a GSM (900 and 1800 MHz) digital network, a UMTS digital network and a FLASH-OFDM digital network. As at 31 December 2005, the company provided its services to over 2 mill customers. T-Mobile Slovensko, a. s. is the sole mobile operator in the Slovak Republic providing its customers with mobile internet access over five high-speed data transfer technologies – HSCSD, GPRS/EDGE, Wireless LAN (Wi-Fi), UMTS FDD and FLASH-OFDM. The company was also the first mobile operator to introduce the multimedia messaging (MMS) service as well as EDGE technology in Slovakia and to launch commercial operation of the third generation network UMTS FDD. T-Mobile Slovensko, a. s. is the first mobile operator in the world to have launched wireless FLASH-OFDM technology in a national operation.

Registered office:

Vajnorská 100/A, 831 03 Bratislava

Legal form:

joint-stock company

Date of incorporation:

16 December 1996

Principal business activities of the company:

- installation and repair of telecommunications facilities connected to the unified telecommunications network,
- consultancy in the area of the public mobile cellular radiotelephone network and public packet network for data transmission,
- establishment and operation of public mobile telecommunications networks over the frequencies assigned under the Licence of the Telecommunications Office of the Slovak Republic,
- provision of a public mobile telephone service via mobile public telecommunications networks stated in the previous paragraph,
- provision of a public data service via public telecommunications networks,
- establishment and operation of a public mobile telecommunications network, which is designated as the third generation network and complies with the UMTS standards, over frequencies assigned under the Licence of the Telecommunications Office of the Slovak Republic,
- establishment and operation of a fixed telecommunications network for the purposes of the interconnection or connection of facilities of the third generation mobile network,
- provision of public mobile telephone service and full scope of data and multimedia services via the third generation mobile network.

Shareholder structure:

100% of shares owned by Slovak Telekom, a. s.

RK Tower, s. r. o.

Slovak Telekom, a. s. founded its subsidiary RK Tower, s. r. o. in 2002 as part of restructuring the branch Rádio komunikácie, o. z. Activities of RK Tower are focused mostly on the leasing of premises at owned sites (towers, masts, buildings etc.).

Registered office:

Cesta na Kamzík 14, 831 01 Bratislava

Legal form:

limited liability company

Date of incorporation:

11 March 2002

Principal business activities of the company:

- installation, maintenance and repair of telecommunications facilities,
- purchasing activities related to real estate administration,
- proposals and optimisation related to information technologies, their development and implementation,
- automated data processing.

Ownership structure:

Slovak Telekom, a. s. is the sole owner of the company.

RK Transmission, s. r. o. (in liquidation)

RK Transmission, s. r. o. a subsidiary established in 2002, was according to the original plans to perform activities in the field of establishing and operating the public fixed telecommunications network comprising radio and television transmitters for the provision of public telecommunications services. Later a decision was taken for these services to continue to be provided by the branch Rádio komunikácie, o. z. Due to the fact that the intention, for which RK Transmission, s. r. o. was established, had not been fulfilled, Slovak Telekom, a. s. decided to wind up the company.

Registered office:

Cesta na Kamzík 14, 831 01 Bratislava

Legal form:

limited liability company

Date of incorporation:

11 March 2002

Ownership structure:

Slovak Telekom, a. s. is the sole owner of the company.

TBDS, a. s.

The company was established in 2005 for the purposes of conducting business in the field of the provision of electronic communications services.

Registered office:

Cesta na Kamzík 14, 831 01 Bratislava

Legal form:

joint-stock company

Date of incorporation:

11 June 2005

Principal business activities of the company:

- installation, maintenance and repairs of telecommunications facilities,
- purchasing activities related to real estate administration,
- proposals and optimisation related to information technologies, their development and implementation,
- automated data processing.

Shareholder structure:

100% of shares owned by company

Slovak Telekom, a. s.

Note:

The Company reported no business activity in 2005.

Zoznam, s. r. o.

Zoznam, s. r. o. is the operator of the portal www.zoznam.sk which has now long been the most visited Slovak internet portal specialised in Slovak internet website search. Today, Zoznam offers over 40 online products focused on various aspects of modern life.

Registered office:

Karpatská 8, 811 01 Bratislava

Legal form:

limited liability company

Date of incorporation:

1 January 1998

Principal business activities of the company:

- provision of information and advertising services by means of computer technology,
- advertising and promotional activities,
- consultancy activity.

Ownership structure:

90 % of shares owned by company

Slovak Telekom, a. s.

10 % of shares owned by Abeles & Braun, s. r. o.

Zoznam Mobile, s. r. o.

Zoznam Mobile, s. r. o. provides services in the field of mobile marketing, mobile applications and mobile entertainment. It is an exclusive partner of T-Mobile Slovensko, for which the company operates mobile entertainment services (pictures, logos, ringing tones, real tones, ringback tones, animations, videos and other). The company also provides its own service COOLmobil and SMS and MMS aggregation services.

Registered office:

Karpatská 8, 811 01 Bratislava

Legal form:

limited liability company

Date of incorporation:

30 September 2002

Principal business activities of the company:

- advisory and consultancy activity in the field of commerce, advertising, software, automation, electrical engineering and informatics,
- advertising and promotional activities,
- market research and public opinion polling,
- graphic design production,
- automated data processing.

Ownership structure:

Slovak Telekom, a. s. is the sole owner of the company.

Slovak Telekom, a. s., Rádiokomunikácie, o. z.

The principal business of branch Rádiokomunikácie, o. z. is the nationwide, regional and local broadcasting of television and radio signals for public-service and commercial stations. Its activities include core and support activities.

The core activities comprise:

- radio transmission broadcasting,
- television transmission broadcasting,
- data transmission,
- satellite broadcasting.

Supplementary services the branch provides include design planning works for radio-communication technologies and antennae system support structure. A specific element of the business is onsite measurements enabling the assessment of the projected and actual coverage of a given area by television and radio signal. Besides maintenance and installation of own radio-communications technologies, Rádiokomunikácie, o. z. also produces basic radio-communication components, mostly for the construction of television transceivers.

Vacant premises at radio-communication sites located throughout the territory of Slovakia are leased to third parties on commercial basis. The service enables interested parties to position their radio-communication facilities at more than 700 sites in suitable geographic locations. Support activities cover two basic areas:

- engineering and design planning activity, special installation and production of radio-communication components,
- leasing of premises at radio-communication sites.

Slovak Telekom, a. s., Commercial Call Centre, o. z.

Commercial Call Centre, o. z. was established in January 2005 as a branch of Slovak Telekom, a. s. dedicated to the provision of services in the form of outsourcing, whether full or partial. The branch provides its services in fourteen languages for clients in Slovakia and abroad.

The core activities comprise:

- outbound services – active contacting of clients by telephone,
- inbound services – information lines, helpdesks, ordering lines, green lines,
- back-office services – processing and storing of applications, correspondence and surveys,
- advisory and consultancy services – selection of an appropriate client database, drafting of a telephone conversation script, determining the most appropriate time for contacting clients, selection of the necessary number of agents and their training, reporting and statistics format design.

Membership and cooperation Slovak associations by profession and industry

Slovak Telekom, a. s. is an active member of the following organisations operating in the field of information and communication technologies and business development focused on activities supporting the development of an information society:

- The Business Alliance of Slovakia – Centre for Economic Development,
- Slovak Foreign Policy Association,
- Communications Technologies Forum,
- IT Association of Slovakia,
- Slovak Association of Electronic Commerce,
- Slovak Chamber of Commerce and Industry,
- American Chamber of Commerce,
- Slovak – German Chamber of Commerce and Industry,
- Project Management Association of Slovakia,
- Union of Slovak Transport, Post Offices and Telecommunication Employers,
- International Club,
- HN Club.

Involvement in international organisations

Our Company is represented in the International Telecommunications Union (ITU); we are a member of the standardisation, radio-communications and development sector.

We are a shareholder in EURESCOM (European Institute for Research and Strategic Studies in Telecommunications) and a member of the following organisations:

- ETNO (European Telecommunications Network Operators' Association). In 2005, Pavol Kukura, the Slovak Telekom representative, held the post of Vice-Chairman of the General Assembly of ETNO and for 2006 he was elected into the position of the Chairman of the General Assembly of ETNO;
- ETP (European Telecommunications Platform),
- ETIS (E- and Telecommunications Information Services),
- ETSI (European Telecommunications Standards Institute).

Letter to our shareholders



Miroslav Majoroš,
Chairman of the Board of Directors
and President

Dear shareholders,

It is my great pleasure to inform you that Slovak Telekom, a. s. in 2005 achieved all its goals set by the Board of Directors, and results which guarantee, even in the complex conditions of Slovakia's telecommunications market, the future successful development of the company.

The consolidated revenues of Slovak Telekom Group totalled SKK 29.2 billion, which represents 50 % market share in the Slovak market for telecommunications products and services. The Group's profitability, reported according to International Financial Reporting Standards, reached 44 %, with profitability from the sale of products and services offered via fixed lines totalling 42 %, which exceeds the profitability levels of fixed operators in other European countries.

From the viewpoint of the telecommunications market's development, the past year was for us a demanding one. By concluding contracts on interconnection with alternative operators, we contributed to creating a real fully competitive market in the field of fixed voices services. We also enabled call-by-call carrier selection. On the other hand, the start-up of alternative operators

brought in increased competition for us. We reacted to the competition and activities of alternative operators by offering even more attractive products, by which we try to convince our customers to stay with our network, based on advantageous quality and the price of services offered.

The telecommunications market in 2005 was affected by strong regulation, magnified by legislative ambiguity in activities of the Telecommunications Office and the Antimonopoly Office. This ambiguity causes uncertainty in the telecommunications market and significantly restrains our marketing strategies, which would otherwise bring more benefits to our end customers.

Development in the Slovak telecommunications market in 2005 reflected the principles of development in the European telecommunications market. Voice services provided over the fixed network are becoming a commodity, the price of which is falling while the share of mobile voice services is gradually rising.

Over the year, we increased the attractiveness of a fixed line for our customers via numerous benefits tied to optional calling plans. Their share in our voice service portfolio increased to 74.5 %. Our tailor-made services and solutions for large corporate customers in the field of voice and data services are very attractive and I am proud that the majority of customers prefers our company as a full-service supplier for their communication services. Mobile communications enjoyed a further period of growth. With its new corporate identity, our subsidiary EuroTel last year became a member of the international network of companies T-Mobile International and, to confirm its world-class status, brought customers several interesting technological innovations, new products and services. Compared to 2004, T-Mobile Slovensko, a. s. increased its revenue in 2005 by 10 %, reaching SKK 14.6 billion, with the number of customers increasing by 6 %, to exceed 2 million. In 2005, T-Mobile Slovensko, a. s. became the world's first mobile operator to introduce fast internet access based on the Flarion technology, enabling customers to benefit from the attributes of fast internet while satisfying demands regarding mobility.

Continuing changes in the needs of our customers brought the need for Slovak Telekom, a. s. to prepare a new strategy for the future. I am glad that through our arguments we convinced the Company's Board of Directors as well as our shareholders that the future of so-called fixed telephony lies in the mass rollout of broadband internet, in the development of internet content and in voice and data services offerings via IP technologies.

In line with the new adopted strategy in 2005 we made ADSL technology available to over 3.7 million inhabitants of Slovakia and gained our 100,000th customer for the ST DSL service.

We are fully aware of the fact that the driving force of broadband internet development is content and this is why in 2005 we launched, predominantly for our younger customers, the portal www.games.t-station.sk providing popular computer gaming services. The long awaited Video on Demand service was made available via the portal www.t-station.sk enabling the customer to download legally and view films in several categories. Given the very positive reactions of our customers we are convinced that entertainment provided over the internet has enormous potential to become a new part of our business.

We underlined our intentions in the field of internet content also by acquiring the companies Zoznam, s. r. o. and Zoznam Mobile, s. r. o. operating the most popular information portal www.zoznam.sk.

The ever increasing competition on the telecommunications market in Slovakia has led us to new, so far untried business activities. I am very happy that we have gained in this new field our initial – but at the same time very significant – successes giving us an extraordinarily good starting position for our future activities.

Implementation of NGN technology in our public telephone network resulted in concluding a highly interesting contract in the area of consultancy services for NGN technology implementation in the networks of telecommunications operators in Middle East countries.

In the past year we fully commercially exploited our in-house experience gained from establishing a call centre and providing its services to end customers,

and by means of a newly established branch we today we offer commercial call centre services in 14 languages for 15 companies in 4 European countries. Towards the end of 2005, we successfully established operations in Ukraine, with the ambition of providing data services to various types of customers.

Our activities in the area of television and radio signal broadcasting by means of our branch Rádiokomunikácie, o. z. were characterised by increasing efficiency and profitability as well as technological innovations. Revenues from the services provided exceeded SKK 1 billion and profitability reached 43 %. In 2005 Rádiokomunikácie, o. z. started testing digital television signal broadcasting at three locations in Slovakia.

The business successes achieved fully reflect also the continuing transformation of our Company into a modern and flexible next generation operator. As a part of this transformation, in 2005 we took many of the necessary steps leading to the introduction of a process-based organisation. The Company's transformation also included a reduction in the number of employees and an increase in efficiency in performing all activities. At the end of 2005 we reached 272 lines per employee.

The transformation of the Company, however, also requires creation of new, specialised job positions, which are linked directly to support of core activities of our Company.

The success of any telecommunications operator is dependent on the satisfaction of its customers. It is a great pleasure for us that in 2005 it was in the area of customer satisfaction, as measured by the international TRI*M index that we achieved an historic success. In both segments – business as well as residential fixed network customers – we achieved customer satisfaction values ranking Slovak Telekom, a. s. among the best fixed telecommunications operators in Europe.

In view of the continuing trends of globalisation in the telecommunications markets, and in line with the strategy of our parent company, in 2005 we began preparations for introducing a new corporate identity, which will visually communicate our affiliation to the companies of the Deutsche Telekom Group.

The new corporate identity and new business brand, which we launched in the first quarter of 2006, will stand as a promise of cutting-edge telecommunications services of international quality for our customers.

Since 2005 Slovak Telekom has become synonymous for its presence in the market as a group, created jointly with its subsidiaries. The Group's strategy is based especially on offering a comprehensive range of products and services and on the best possible satisfaction of customer needs. In all the companies' activities the greatest possible synergy is sought. On the other hand, our goal is not the strict integration of subsidiaries, since we are convinced that for achieving success in a very dynamic market, a suitable degree of independence as well as flexibility in action is important. We will seek out all possibilities to reduce costs, to efficiently conduct common activities, and thus increase the value of our Group and benefit for our shareholders.

I am convinced that all the successes achieved, together with the new challenges we will face in 2006, will be a guarantee of our Company's further improvement. They will contribute to our efforts to accomplish our vision to become the best telecommunications company offering the customer fast broadband internet access, attractive internet content, modern mobile communication and a broad array of IP technology-based voice and data services available.

All that, underlined by professional customer care, makes us convinced that we will successfully accomplish the tasks ahead of us in 2006.



Miroslav Majoroš
Chairman of the Board of Directors
and President

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Executive Management at Slovak Telekom Group



Ing. Miroslav Majoroš
Chairman of the Board of Directors and President

Born in 1959. Obtained university education at the Faculty of Electronics and Informatics at the Slovak University of Technology in Bratislava and during his professional career supplemented his education through management education programmes at the Harvard Business School and Stanford Graduate School of Business. After completing his studies in 1983 he worked at the Slovak television broadcasting company, where he held several positions, in 1993 being appointed to head the company. Over the years 1998 – 2000 he was the general manager of IBM Slovakia and from 2000 to 2002 was the general manager of IBM Czech Republic and Slovakia. He has been Company President/CEO and a Member of the Board of Directors at Slovak Telekom, a. s. since 2003. In 2005 he was elected chairman of the Board of Directors and concurrently is a member of the board of directors of the subsidiary T-Mobile Slovensko, a. s. Miroslav Majoroš is a member of the board of directors and a delegate of the Association of Delegates of Slovak Chamber of Commerce and Industry, a member of the Policy Board of the Business Alliance of Slovakia, a co-chairman of the working group for regional policy and development in the National Convention on the EU in the Slovak Foreign Policy Association. He is a member of the Commission for the Transformation of Posts and Telecommunications in the Parliamentary Committee for the Economy, Privatisation and Business, and is a member of the board of trustees of the IT Association of Slovakia.

Szabolcs Gáborjáni-Szabó, CFA*
Member of the Board of Directors and Senior Executive Vice-President/CFO

Szabolcs Gáborjáni-Szabó was born in 1970. He studied mathematics and computing science at the Eötvös Lorand University in Budapest and at the same time economics at the Faculty of Management at the University of Economic Sciences in Budapest. In 2000 he gained the title CFA (Chartered Financial Analyst) at the CFA Institute (previously known as the AIMR – American Institute for Management and Research). His professional career began at the Hungarian Commercial and Credit Bank – K&H Bank, in the Special Project Financing Department. In 1995 – 1996 he worked at the Budapest Derivatives Exchange and from 1996 worked in the financial field in the company Magyar Telekom and its subsidiaries, holding, among others, the position of deputy manager of the controlling division (from 1999 to 2001) and manager of the Group Treasury Branch (from 2001 until moving to ST). After entering the position of Senior Executive Vice-President/CFO in Slovak Telekom, a. s., in the course of 2005 he became a Member of the Board of Directors of Slovak Telekom, a. s., a member of the supervisory board of T-Mobile Slovensko, a. s., and a member of the board of directors of TBDS, a. s.

*** Until 15.4. 2005 the position of Senior Executive Vice-President/CFO had been held by Dr. Mark Peter Montagne von Lillienkiold**





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

Born in 1949, he studied the field of telecommunications and electrotechnical engineering at the Technical University in Berlin. His career began in 1975 as executive telecommunications manager at the operations and maintenance section. From 1980 he broadened the scope of his career, working abroad in Saudi Arabia, India and Singapore, as well as holding various managerial positions in Germany. Under his management Deutsche Telekom AG opened its first regional subsidiary – Deutsche Telekom Asia – in Singapore, which became a renowned telecoms company in the South-East Asia region. In 1997 he became a member of the executive board of Network Communications in the field of product and marketing management for large German companies at Deutsche Telekom headquarters and contributed to the company's successful passage through the liberalisation process in the German telecommunications market. In 1992 he took over worldwide responsibility for product management of all voice, data and IP products within the Deutsche Telekom Group subsidiary, T-Systems International. He has worked at Slovak Telekom, a. s. in Bratislava since November 2002, in the position of Senior Executive Vice-President/COO and is a Member of the Executive Management Board.

PhDr. Anna Hudáková
Executive Vice-President/CHRO

She was born in 1959 in Košice, Slovakia. At the Pavol Jozef Šafárik University in Prešov, Slovakia, she specialised in the study field adult education and training, and supplemented her education through further education at home and abroad, for example, in the field of human resource management, managerial skills, finance and accounting for managers operating in the non-finance sector. Her career began in 1983 at the Slovak Academy of Sciences in Košice, later working as a historian in the East Slovakia Museum in Košice. From 1992 she worked as business manager at Coca Cola Amatil Slovakia, where in 1995 she became the manager for human resources. In May 1998 she became the human resources manager for Slovakia and the Czech Republic in the company Slovak International Tabak, a. s./Reemtsma Hamburg, where she was a member of the management. Since January 2001 she has worked at Slovak Telekom, a. s. where she holds the position of Executive Vice-President/CHRO. She is at the same time president of the Slovak Association for Human Resources Management and Development.





Igor Hurčík
Executive Vice-President/CIO

Born in 1951, he studied law and economics at the University of Zurich. In 1975 he began his career at Citibank Zurich, working from 1979 until 1982 at Credit Suisse, Zurich, at the treasury section. In the years 1982-1989 he held top managerial positions at various subsidiaries of Merrill Lynch & Co. Inc. in London and New York. A further step in his managerial career came in 1989 with his move to the Continental Bank, Chicago, where he worked until 1992, when he returned to Slovakia. In 1992-1994 he was one of the members of the founding committee of the mortgage bank Prvá stavebná sporiteľňa, a. s. in Bratislava, holding the functions CFO, CIO and COO. From 1995 to August 1997 he worked at the Živnostenská banka in Prague as a member of the Board of Directors, CFO and CIO.

Before moving to Slovak Telekom, a. s., he was the manager of the financial advice services & business development department at Deloitte & Touche Central Europe, Bratislava. Since February 2004 he has held the position of Executive Vice-President/CIO at Slovak Telekom, a. s.

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

Born in 1960, he graduated in 1983 from the Electro-Technical Faculty of Slovak University of Technology. Until 1993 he worked at the Department of Telecommunications of the Faculty of Electronics and Informatics of the Slovak University of Technology, firstly as a postgraduate student and later as a professional assistant. He gained his PhD in the field of digital telecommunications networks in 1993. While at university he worked in 1991 at the technical university RWTH Aachen, subsequently in 1992 – 1993 at the research centre of SEL Alcatel in Stuttgart. Over the years 1994 – 1996 he was the technical manager of AT&T in Slovakia, moving in 1996 to become the technical and later business manager of Lucent Technologies Slovakia until 2000. Then, until September 2003, he was the chief manager of the consultancy firm A1 Consulting, advising in the field of telecommunications operator strategy, telecommunications legislation and licensing policy. He has worked in the position of Executive Vice-President/CSRO at Slovak Telekom since October 2003. He is also the present chairman of the General Assembly of European Telecommunications Network Operators' Association, he is a member of the Board of Directors of SAEC (Slovak Association of Electronic Commerce) and a member of presiding committee of ITAS (IT Association of Slovakia).





Ing. Róbert Chvátal
Chief Executive Officer of T-Mobile Slovensko, a. s.

Born in 1968, he graduated in 1992 from the University of Economics in Prague. During his studies he was president of the international student organisation AIESEC for Czechoslovakia. He extended his education during his professional career through management education programmes at Harvard Business School and Stanford Graduate School of Business.

After completing his studies he began his career at the marketing department of Procter & Gamble in the Czech Republic, from where he moved to become marketing director at COTY / Margaret Astor. In 1997 he began working at the company RadioMobil, a. s., firstly as marketing director, later becoming a member of the board of directors. He became the general manager of EuroTel Bratislava, a. s. in May 2002. Under his management the Slovak mobile phone operator was rebranded and incorporated into the international T-Mobile group in May 2005. Robert Chvátal has been a member of the board of directors of the company T-Mobile Slovensko, a. s. since 31 December 2004.

The Board of Directors of Slovak Telekom, a. s.

Ing. Miroslav Majoroš
Ing. Štefan Bugár

Chairman
Vice-Chairman

Horst A. Hermann
Dr. Ralph Rentschler
Szabolcs Gáborjáni-Szabó, CFA
Ing. Gabriela Vavříková
Ing. Peter Stropko
Dr. Mark Peter Montagne von Lillienkiold

Member
Member
Member as of 22 April 2005
Member
Member
Member until 19 April 2005



Supervisory Board of Slovak Telekom, a. s.

Ing. Martin Velecký
Dr. Frank – Reinhard Bartsch

Chairman
Vice-Chairman

Dr. Hans-Peter Engel
Dr. Albert Matheis
Ing. Pavel Kyman
Ing. Ľudovít Hintoš
Ing. Jozef Opát
JUDr. Eleonóra Valentová
Ing. Alojz Glinský

Member
Member
Member
Member
Member
Member
Member

Corporate Governance

As a shareholder or business partner in its subsidiaries Slovak Telekom, a. s. exercises its rights through participating at annual general meetings, or performs the competence of the general meeting in companies where it is the sole shareholder.

It appoints representatives to the statutory bodies of companies (the board of directors, executives) and their supervisory boards, where these bodies then submit reports to Slovak Telekom, a. s.

Slovak Telekom has a responsible and transparent model of governance. The Company regularly publishes on its website current and relevant reports on its activities. It also issues information on a quarterly basis on its economic results, publishing its annual report yearly.

Slovak Telekom, a. s. has long paid particular attention to the internal control and audit environment. The company's management considers the system of the internal control and audit environment to be an important managerial task and Slovak Telekom, as a subsidiary of Deutsche Telekom AG, listed on the New York stock exchange, is incorporated into the Sarbanes-Oxley 404 project within the Deutsche Telekom Group. The main focus of management at Slovak Telekom in this regard is on the proof of control over internal processes and standards. The results of internal testing of the control and audit environment are the subject of a control performed by the company's internal and external audit, which will concurrently serve as the basis for the statement by the management of Deutsche Telekom AG on the internal control and audit environment within the Deutsche Telekom Group. This statement will be issued for the first time on 31 December 2006.

Slovak Telekom is a holding, comprising the parent company Slovak Telekom, a. s., its subsidiaries T-Mobile Slovensko, a. s., RK Tower, s. r. o., RK Transmission, s. r. o., Zoznam, s. r. o. and Zoznam Mobile, s. r. o., TBDS, a. s. The Company also comprises branches; Rádiokomunikácie, o. z. and Commercial Call Centre, o. z.

All our subsidiaries have their own executive management, and act as separate legal entities.

Organisational arrangement of Slovak Telekom, a. s.

An inherent component of the system of governance is the company's organisational structure, which determines its basic arrangement, in the classification:

- the company's bodies
- executive management board
- branch
 - with the aim of efficiently performing the company's line of business.

Company bodies

The General Meeting is the supreme body of the company. The General Meeting competences are defined by the company's articles of association.

The Board of Directors is the statutory body of the company. It is authorised to act on behalf of the company in all matters and represents the company vis-à-vis third parties. The Board of Directors governs the activity of the company and decides on all company matters, unless these are reserved by legal regulations or the articles of association for the competence of other company bodies, or unless delegated by the Board of Directors to other bodies. The Board of Directors appoints the company's Executive Management Board and delegates the necessary powers. The Board of Directors' decisions take precedence over decisions of the Supervisory Board.

The Supervisory Board is the supreme control body of the company. The Supervisory Board oversees the performance of the Board of Directors' competences and the execution of the company's business operations. Members of the Supervisory Board met four times over the course of 2005, in March, June, September and December.

The Executive Management Board of Slovak Telekom is responsible for the running of the company in accordance with the decisions of the Board of Directors. The Board of Directors may entrust the Executive Management Board with any activity for which it is responsible, providing the Company's Articles of Association or Slovak legislation do not prohibit this. The Executive Management Board comprises the company's President/CEO and chief executive officers of the Company's main units and organisational units as determined by the Board of Directors. The Board of Directors approves the rules of procedure for the Executive Management Board. Members of the Executive Management Board are appointed and recalled by the Board of Directors. The Executive Management Board acts in accordance with applicable laws, Articles of Association, resolutions of the General Meeting, and decisions of the Board of Directors. It is responsible to the Board of Directors for its activity.

A branch is an organisational unit of the business, entered as a branch in the Commercial Register. Through its entry in the Commercial Register a branch does not become a legal entity, it is not a legal person, but simply part of a business. Slovak Telekom, a. s. operates two branches: Rádiokomunikácie, o. z. and Commercial Call Centre, o. z.

Employee Code of Ethics

The basic document shaping the corporate culture in our company is the Employee Code of Ethics. It is based on the company's vision and values, reflects its strategy and implements them through the actions and behaviour of each member of our staff. It is a guarantee for customers and partners that Slovak Telekom and its employees respect and observe basic human values, and always act in accordance with the rules of fairness and ethics. At the same time it represents the linking of the Slovak company with the visions, values and strategy of our parent company, Deutsche Telekom.

To the Code of Ethics are linked the Customer Orientation and Behaviour Standards, which we apply in cooperation with our clients and colleagues, external and internal partners. They express our commitment to taking a correct approach to the needs and wishes of our customers, professionalism in providing services, respecting freedom of choice and the thorough fulfilment of agreements. In external communication, as well as communication within the company we are open and true. In labour relations between superior and subordinate staff we respect differences of opinion and personalities, cooperate fairly, responsibly and with regard to the interests of the team as a whole.

Accepting the Code of Ethics is the way by which we express our loyalty towards the firm, and profess individual and joint responsibility. Acting in accordance with these principles helps us fulfil the mission of our company and accompanies us on the path to achieving our vision.

Quality policy

The total quality management system is an important instrument of the company's management and represents a significant competitive advantage. Essentially it is a philosophy built on extending the term quality to encompass also internal customers and suppliers within the framework of our firm's processes, the result of which is continual improvement. The quality management team helps managing quality at Slovak Telekom, a. s. by means of providing methods, consultations, communications with individual units of the Company and by means of coordinating quality improvement at the level of the company's management. Its competences cover the management of complaints, performance of internal quality inspections, involvement in the creation of the management information system and participation at regular meetings with partners in the Deutsche Telekom group (T-Com, Hrvatski Telekom, Magyar Telekom), which serve for seeking synergies and best practices in quality management and the mutual exchange of experience in this field.

In 2004 we implemented a system of quality management according to the international standard STN EN ISO 9001:2000 and subsequently underwent certification by the renowned foreign organisation RW TÜV Systems GmbH. Certification was aimed at the field of providing data services for key and large customers in the business sector and government. In October 2005 a control audit was performed at our company, which confirmed the certificate's validity and meant a successful continuance of the results achieved.

Sustainable development and the ecology

The European Telecommunications Network Operators' Association in 2004 approved the strategic document – Sustainability Charter. As an active member we involved in the efforts of leading European companies to take equal account of the economic, social and environmental aspects of doing business. We have brought together the conclusions of the Charter together with the principles resulting from the models of sustainable development and the new Environmental Policy of the Deutsche Telekom Group into a Sustainable Development Strategy at Slovak Telekom.

Our strategy voluntarily extends the commitments of Slovak Telekom, a. s. beyond the duties imposed by the Slovak law. We contribute significant to improving protection of the environment, business morals, the quality of life of citizens and employees and thereby also to the perception of Slovak Telekom, a. s. as a highly responsible and respectable company. In 2005 we achieved good results in reducing the production of pollutants causing climate change, in removing old environmental burdens, in particular for protecting waters, in raising the valorisation of wastes, while concurrently raising the environmental awareness of staff and customers.

A passion for innovation



■ Shaping development in the telecommunications market

As society develops, so do its needs. That is why we strive to show our customers that we are improving and increasing quality in all we do.



Our strategy mirrors development and conditions in the telecommunications market

Legislative conditions

Common European legislation has arranged the conditions of doing business in the telecommunications market through a regulatory framework defining individual elements of the platform and representing a certain ideal operating formula. Since some countries have commenced the implementation of certain elements earlier than others, there are currently major differences among European Union members.

After Slovakia joined the EU, this regulatory framework was implemented in the Slovak legislation by means of the Act on Electronic Communications and we started with the gradual implementation of its conditions. This means solving issues connected with interconnection with other operators, local loop unbundling, number and central database portability, numbering plan administration and the preparation of migration scenarios. The Act on Electronic Communications entered into force on 1 January 2004. However, its original version has been modified and updated in order to assist in the faster growth of the Slovak telecommunications market. These issues relate primarily to the fixed line market, while changes connected with number portability concern mobile operators. The entire regulation process is overseen by the Telecommunications Office of the Slovak Republic, which has been given broader competencies and powers in the new conditions. Slovak Telekom, a. s. participated in drafting the Act with expert comments, as it is the key act focused on setting the rules for Slovak Telekom's business. Some specific sections of the Act are still being drafted and conditions in the Slovak market are gradually being harmonised with the European legislation.

Market regulation

The past year was characterised by sharpening competition and real market liberalisation, with clients as of August 2005 being given the opportunity to use also the services of other operators when calling from a fixed line.

Following a decision of the Telecommunications Office of the SR, Slovak Telekom, a. s. published its Reference Interconnection Offer (RIO) in August 2005. After two years of negotiations between Slovak Telekom, a. s. and alternative operators, an agreement was reached and network interconnection agreements were signed with eight entities. At the end of 2005, five alternative operators had networks interconnected with Slovak Telekom, a. s.

Slovak Telekom, a. s. also submitted the Reference Unbundling Offer in August 2005. Slovak Telekom, a. s. thus commenced the process of local loop unbundling on its part, which will enable alternative operators to start providing their own services. By the end of 2005, five alternative operators had expressed their interest in negotiating with our company.

Under the Act on Electronic Communications the Telecommunications Office of the SR is obliged to define relevant markets in the area of electronic communications based on a list recommended by the European Commission, and subsequently examine whether there is an efficient competition in those markets. The Telecommunications Office designated significant market power of businesses in five relevant markets in 2005.

In the European Union can be seen discontent on the side of large telecommunications operators and refusal of their home countries' regulation. The efforts to handle regulation on a European level are at the same time growing stronger. Operators are aiming that on a European level former state monopolies be given a free hand in setting prices with competitors in order that costly investments in modern networks bring appropriate profits for investors. Deregulation in other countries, for example the United States or in Asia, has proven to lead to increased competitiveness, lower prices, broader product ranges and stronger productivity growth.

The telecommunications market in Slovakia

Slovakia witnessed very dynamic development of the telecommunications market in 2005. All technologies emerging in the world are fast gaining ground also in our market. Traditional voice transmission has, in the new conditions, become a widely available commodity with strong competition constantly pushing prices down. Modern technologies enabling operators to provide a much broader range of services to clients are finding their way to the market. DSL (Digital Subscriber Line) is a technology using the existing infrastructure for high-speed data transmission. Broadband Internet access is not based on the duration of the connection and means a real access to multimedia applications. Other telecommunications technologies that have established themselves also in Slovakia, include WiFi microwave Internet connection, WiMAX wireless Internet access technology, cable transmission, and FLASH-OFDM – third generation mobile technology for mobile data transmission. Slovakia has become the first country in the world in which this technology from the firm Flarion has been implemented.

In 2005, the total earnings of the telecommunications market in Slovakia grew by 8.2 % (source: Statistics Office of the Slovak Republic) to about SKK 58.3 bn. The mobile market was the dominant market segment with earnings of SKK 36.03 bn. representing almost two thirds of the total earnings of the sector. Even though year-on-year growth declined from 20 % in 2004 to approximately 12 % in 2005, the mobile market was still the chief driver of growth in the telecommunications market. Mobile phone penetration rose from 79 % to around 87 % at the end of 2005. Unlimited calling plans have become a standard tool for client acquisition and retention in the mobile voice services segment. The share of mobile data services in total revenues grew by 15 %, in particular due to growing penetration of GPRS / EDGE Internet services.

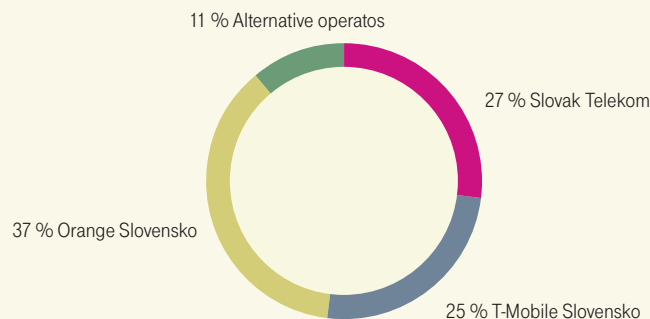
Conversely, earnings from fixed voice services declined by approximately 10 % year-on-year to less than SKK 11 bn. The reasons were a continued decrease in fixed line penetration from 25.4 % to 24.5 % at the end of 2005, lower voice traffic volume on the fixed network, and a considerable fall in call prices resulting

from the entry of alternative operators to the market by means of carrier selection from the beginning of August 2005 and strong competition from mobile operators.

Earnings of individual operators in SKK mill

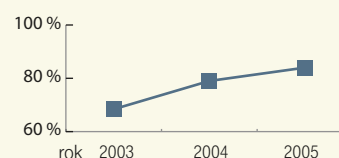
	2004	2005
Slovak Telekom, a. s.	16,889	16,012
T-Mobile Slovensko, a. s.	13,230	14,590
Orange Slovensko, a. s.	19,105	21,444
Alternative operators	4,621	6,282
Telecommunications market total	53,845	58,328

Operator's market shares in 2005

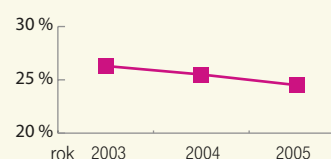


Source: Slovak Telekom, a. s.

Penetration rate Mobile network



Fixed network



Source: Slovak Telekom, a. s.

The Internet service market was again in 2005 the most dynamically developing segment of the telecommunications market in the Slovak Republic. The estimated number of broadband connections in Slovakia increased over the course of 2005 by approximately 120 %; this was in particular due to high growth in the DSL internet service, where the client base rose to more than 100,000 clients at the end of the year. However, broadband penetration in Slovak households was still low compared to other EU countries – only about 5 % of households used broadband access at the end of 2005. Strengthening competition in Slovakia's Internet market over the year brought price reductions, transmission speed increases, and new attractive multimedia services. The offering of wireless technologies for broadband access was enhanced, as well.

At the same time, the number of Slovak Internet content users grew by 40 % in 2005 (Source: iAudit Sk and TNS SK).

The data service market grew year-on-year by approximately 5 % in 2005. Earnings fell especially in the leased line segment, in particular due to competition from FWA lines, a decline in market prices, and growing migration of business clients to MPLS-based virtual private network solutions.

New strategy for our clients

The strategy of the Slovak Telekom Group responds to the development of market conditions, which means a further shift from the existing fixed line revenues to a very proactive approach oriented on fulfilling all our clients' communication needs. In the Group's activities we focus on achieving the greatest possible synergies, joint cost reductions, efficient implementation of common activities, thus increasing the economic value of our Group.

Voice service traffic, once the strongest area of Slovak Telekom's activities is recording a gradual decline and, from the aspect of forecast trends, its share in the communication market will continue to decrease. We realise that new attractive services opening up as yet untapped revenue sources will accelerate the business. Slovak Telekom, a. s. has entered the realm of entertainment and leisure activities, which have so far been the domain of companies of a wholly different business orientation. Our range has thus become comprehensive, including not only a broad portfolio of products and services for both work and business, but also a wide range of entertainment and leisure activities.

In August 2005, we signed acquisition contracts on the basis of which we acquired a 90 % stake in Zoznam, s. r. o. and a 100 % stake in Zoznam Mobile, s. r. o. The www.zoznam.sk website has long been the most visited site of the Slovak Internet with a considerable lead on its competitors. We have thus created a good basis for implementing services with higher added value.

By creating a modern and fast portal for gamers – www.games.t-station.sk we commenced our activities in the area of content provision over the Internet. The portal is accessible for all users regardless of their connection.

In September, we launched a new portal – www.t-station.sk – the next step in fulfilling the strategy of Slovak Telekom, a. s. This Internet magazine aims to give users good reasons why to connect to the network as often as possible and using a top quality line. The portal also features a Video on Demand service enabling persons interested to download pre-paid movies by means of the Internet protocol.

Through its activity our company influences the entire telecommunications market in Slovakia. By means of our wholesale activities we become a supplier to our competitors. We are working on the implementation of the VoIP Interconnect Hub technology platform able to work with both traditional voice and voice over IP. A successful implementation of the project will mean an active entry to the international voice traffic market for us.

Provision of commercial call centre services to third parties is opening up space for new business activities. We are intensively building and extending the necessary infrastructure. Having gained experience in the domestic market, our aim is to establish services also abroad. A pilot project in this field last year was building of an ST network node in Kiev, Ukraine, and the launching of its service provision.

Besides introducing new products and services, we also expanded our business in terms of geographic reach. A strategic project with a long-term effect on Slovak Telekom's business is developing in the Middle East region. We are utilising our experts' experience with operating next generation networks (NGN) and the Internet protocol (IP) and the project will also have a positive influence on the perception of Slovakia abroad. The consultancy services we have provided represent an exceptionally important type of project and revenue source.

Ongoing transformation of Slovak Telekom, a. s.

A component of Slovak Telekom, a. s.' strategy is also the continuing transformation that has been under way since our incorporation into the Deutsche Telekom Group. The process is aimed at ensuring the company's efficient operation, but most of all is a reaction to the current situation in the market. The company wants to grow, innovate and push forward progress in the market.

As Slovak Telekom, a. s. will not be able to grow through voice services in the future, we are looking for new forms and opportunities to increase our company's competitiveness.

In this regard we are intensively implementing a transformation programme to turn our company into a next generation operator. The implementation of the transformation itself is aimed at all business areas and concerns each and every employee and manager in our company.

In 2005 we intensified the transformation process with the aim of giving clients top quality and excellent services at adequate prices and achieve efficiency ensuring the company's growth.

In the transformation programme we are focusing on three strategic areas:

- increasing efficiency,
- revenue growth,
- innovation and growth.

In increasing efficiency we are concentrating on targets such as decreasing the number of faults, shortening the service provisioning time, optimising staffing levels, automation, standardization and streamlining of processes.

The most important goals in the revenue growth area are, for us, stabilisation of fixed network clients, acceleration of broadband penetration, information technology solutions and new solutions for both residential and business clients.

Technology requires fast implementation of innovations. We face the task of implementing NGN technology and broadband services, as well as optimizing network operation from the aspect of costs and profitability.

Since line organization can run into certain problems, we have decided to overcome these by introducing the principles of a process-based company strictly using client requirements as a basis, with all auxiliary processes and procedures supporting these requirements. Orientation on business processes give us a chance to speed up our reactions to customer requirements, reduce internal costs, and manage the quality of our services.

People are the key tool for implementing change. The transformation process brings the need to adjust our workforce structure to the new tasks. We are building a streamlined organisational structure that will require fewer employees, though with new skills and competences. We also focus on project education so as to increase the share of project-thinking and skilled people able to manage processes, or to be full members of project or virtual teams.

Prospects of future development and expectations for 2006

The telecommunications market is developing extremely fast, creating pressure on the efficiency and technological maturity of market players. The future will belong to integrated operators able to provide users with a combination of fixed and mobile network services, applications which customers want, and able to become an integrator of the services provided. That is also why the business strategy of Slovak Telekom Group is based on offering a comprehensive range, best satisfying client needs, and mutual synergies. In the coming months, services and applications based on UMTS, a technology enabling voice and data transmissions, will appear in mobile operators' product ranges. The transmission speed of mobile broadband Internet access is comparable with the existing DSL, although high investments in licences and higher service fees still pose a certain barrier. Our subsidiary, T-Mobile Slovensko, a. s. announced the launch of UMTS's commercial operation in January 2006.

The culmination of our two-year endeavour for constant modernisation and improvement in the quality of services for clients was the change of our business name and brand in March 2006, through which we were also visually integrated into the group of Deutsche Telekom companies. The name Slovak Telekom, a. s. has become the company's new business name and T-Com the new brand under which products are offered and which clients encounter. Both the corporate and business brands include the letter T, a common element unifying the fixed line operator and the mobile network operator. T is one of the strongest brands in the global telecommunications market. It is a synonym of quality, customer orientation, innovation, competence and efficiency. As the business brand of the Deutsche Telekom Group, the magenta T is a guarantee of top quality in the field of telecommunications services in almost 30 countries around the world.

The trend in telecommunications market development indicates a declining demand for fixed voice services and a growing share of mobile voice services. We are expecting and will have a share in the mass launch of broadband Internet, Internet content development, and IP-based voice and data services. At the same time, we are expanding our business activities – looking for new opportunities and alternative revenue sources, such as commercial call centres, consultancy in large international projects, etc.

For 2006 we are awaiting events that will have a considerable influence on all telecommunications market players. This concerns in particular the arrangement for number portability in fixed and mobile networks, or unbundling the DSL provision from provision of the public telephone service. An amendment to the Act on Electronic Communications will enter into effect in April 2006. Broadband Internet access based on ADSL, FLASH-OFDM and WiMAX technologies will be available in all district capitals, high-speed Internet will surge and the number of its users will grow considerably.

We expect a contract to be signed based on the Reference Unbundling Offer and the commencement of public telephone service provision via alternative operators' fixed networks.

The mobile telephony market will presumably be influenced by the expected arrival of a third operator, or the potential activities of virtual operators.

In connection with the ongoing transformation we will, in stabilising the customer base, endeavour to increase the fixed line market share and achieve a high customer satisfaction index. Through enhancing our infrastructure we intend to achieve the principle of zero intervention need and achieve a 40 % share of self-installations. We continue in striving to optimise the OPEX and CAPEX indicators and develop our people's competences and skills necessary for the new organisation.

A passion to face challenges



■ Report of the Company's management

Every challenge we accept
is a chance to improve
ourselves and become
more effective.

Making life better, more entertaining and pleasant for our customers

In line with the approved strategy, striving to bring a better life to our customers and to provide them with more entertainment, the year 2005 marked the launch of attractive products in the field of voice, data and Internet services.

Customer satisfaction is the most important criterion in assessing our efforts

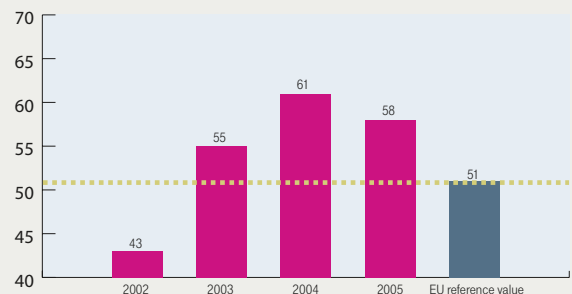
The key indicator reflecting the quality of work of the entire company and the perception of its performance by the customer is the TRI*M index. It is used by companies worldwide to independently benchmark their performance against competitors. We conduct customer satisfaction measurements every year in two waves and we consider it a great success that its course reflects a highly positive perception of our activities among both residential and business customers. The TRI*M index levels achieved in 2005 again ranked our company among the absolute leaders of European telecommunications operators.

TRI*M index results achieved by Slovak Telekom compared to the average value achieved by EU fixed line operators



Customer satisfaction in the fixed line business, household segment

Source: TNS AISA



Customer satisfaction development in the fixed line business, business segment

Source: TNS AISA

The EU benchmark for customer satisfaction with mobile operator services is 71. In autumn 2005, our subsidiary T-Mobile Slovensko, a. s. achieved 86 points in the household segment, ranking it among the top mobile operators.

Fixed network products and services for households

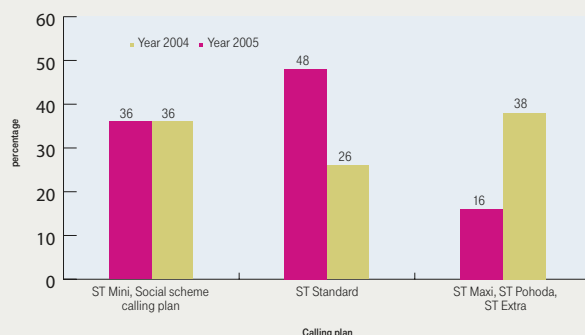
Voice services

As at 31 December 2005, Slovak Telekom operated 1,319,652 fixed lines (including ISDN b-channels and public payphones). Our Company offers customers several options from which to choose in deciding on their method of communication. Our customers can opt for an ideal calling plan matching their needs, making their choice on the basis of their own criteria. In total 74.5 % of our residential customers use now optional calling plans.

Optional calling plans give our customer the freedom to make a choice depending on the scope and intensity of their communication needs and their budget. The first half of 2005 saw a significant change in the structure of calling plan uptake, with customers predominantly opting to change from the traditional ST Standard plan to the more advantageous plans ST Maxi and ST Pohoda. Over the course of the year 150,000 customers changed over to ST Pohoda, making it the fastest growing calling plan.

Subscription growth for these calling plans for the previous year is shown in the table below.

Development of calling plan subscription rate



In 2005 we launched the highly popular Short Message Service available within the fixed network as well as for SMS sending to mobile networks. The service was very quickly received and is developing fast. Our portfolio is complemented with other products including a message box service, operator-assisted services, a fax and telegraph service, prepaid phone cards, public payphones and telephone directories.

Last year we introduced a single price for international calls made from Slovakia for all our customers. Regardless of the calling plan, our customers can now make calls to all EU countries and other selected countries at prices starting from SKK 3.90 per minute.

In 2005, we actively expanded the service "Info Asistent" provided on 12 111 and, identifying our customers' needs, we launched a new service providing information about the T-Mobile network customer numbers on 1181.

The end of 2005 culminated in the successful implementation of a point collection system for our loyalty programme – max klub. This new system fulfils our promise of continually delivering new and unique benefits for our customers.

The basic principle of the programme lies in collecting and spending of club points, which makes it possible to use the flexible system as a direct instrument for customer relations management.

Our max klub loyalty programme over the past year reported a several-fold increase in the number of members to the current 80,000. Building and developing long-term relations with our customers has become an important criterion of success in the competitive environment.

Increasing service availability

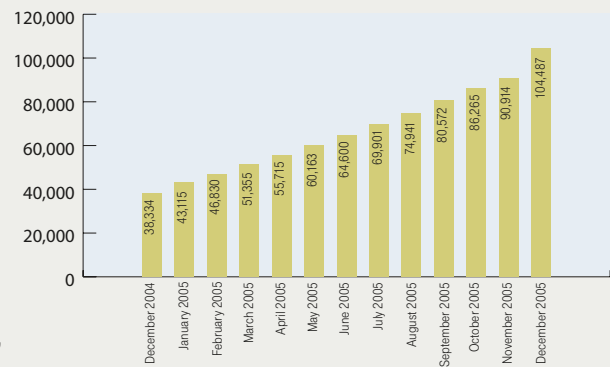
Throughout 2005, in cooperation with our partners we extended the network of Slovak Telekom, a. s. sales points through a further new 11 locations. In total the network now comprises 55 sales points, known since March 2006 under the new name T-Centrum. The expansion in the sales network brings our customers better availability and convenience. Within the service offer, the dominant product now is broadband Internet connection and, along with traditional telecommunications services, we extended our portfolio with info-communications services to include, for example, the sale of personal computers.

Greater Internet availability

In the area of Internet services, our main efforts concentrated on extending broadband connection. Rapid development in technology has changed our way of life, enabling people to work, communicate and organise their time more flexibly. We are responding to that trend by introducing attractive products and services focused on entertainment and leisure.

Towards the end of 2005 we connected our 100,000th customer DSL. A high rate of growth is seen not only in the number of connections but also in the extension of the DSL service geographic availability. At the end of 2005, broadband Internet was available in over 600 municipalities around Slovakia, with the potential to serve more than 3.8 million inhabitants. By the end of 2006 we aim to double the number of connections to approximately 200,000 customers.

Number of DSL accesses



Our ST Online product serves 80 % of the total market for DSL services, with the remaining share belonging to other DSL service providers.

In an effort to increase customer satisfaction with the ST DSL service, from 1 March 2005 we increased the data transmission rate for users of the ST DSL high-speed Internet connection free of charge. While prices remained unchanged, the data transmission speeds changed as follows:

Programme	ST DSL doma	ST DSL 512	ST DSL 1024	ST DSL 1500
Speed	384/64	512/128	1024/192	1536/256
	↓	↓	↓	↓
Programme	ST DSL doma	ST DSL 1000	ST DSL 1500	ST DSL 2000
Speed	512/128	1024/128	1536/192	2048/256

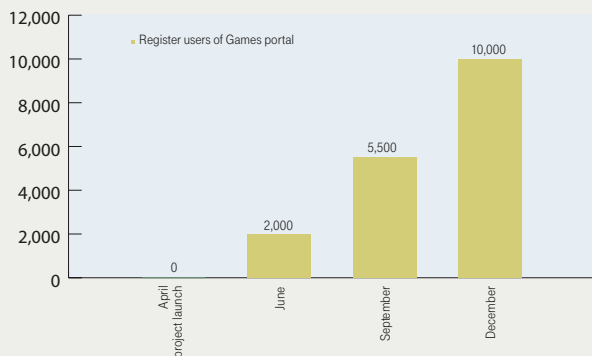
Our “self-installation packages” were received extraordinarily well. This service enables customers to install their connection themselves, following information on an attached CD-ROM. Interest in the service grew continually throughout the past year. The advantages, simplicity and flexibility in time offered by this installation method brought the share of new DSL customers opting for this solution to 67.5% in December 2005.

The dial-up customer base saw a slight decrease although the number of new orders has been stabilised. This situation is due to the massive user migration to our highly popular high-speed DSL Internet. At the beginning of the year, we served more than 100,000 dial-up Internet customers, while in December 2005 this type of technology for Internet connection was used by some 80,000 ST Online dial-up customers.

Entry to the Internet content market

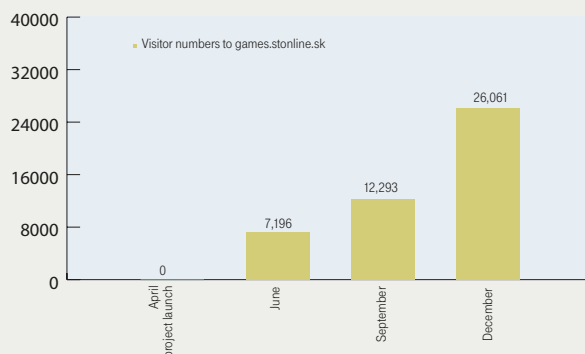
As of 1 April 2005 we entered the Internet content market with our Games portal (www.games.t-station.sk) for Internet-based gaming. Using a highly advanced technological solution, fast response times and high player interactivity, by the end of 2005 Games had become the most visited online gaming portal in Slovakia.

Registered users of Games portal - 2005



The end of 2005 marked another milestone in this field – the number of our registered users reached 10,000, with more than 100 new registrations a day since the end of 2005. Statistics show that in December 2005 the portal served 1,400 unique visitors on a daily basis, representing some 30,000 unique visitors a month. Since the product’s launch in April 2005, this number has thus tripled. The portal brings daily news and features from the gaming world, free game downloads, flash games and, last but not least, leagues and tournaments.

Visitor numbers to www.games.t-station.sk

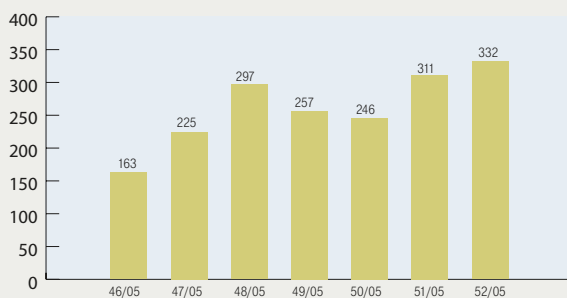


Visitors can also choose from a range of the 13 most popular multiplayer games worldwide and connect easily to powerful servers. The servers provide a platform for some 3,000 to 4,000 players every day, representing some 40,000 to 45,000 unique players a month. According to statistics, Games is the most popular portal for multiplayer games on the Slovak market, and shares second place in the Czech Republic and Slovakia combined.

Our objective is to double the number of players on our servers over the course of 2006, representing some 80 000 a month or 6 000 a day. We will also increase the number of games and our Slovak Internet users will benefit from innovations as yet unavailable to players anywhere in the CEE region.

The portal www.t-station.sk, which we launched into operation in September 2005, has become a recognised platform for providing Internet content. November saw substantial innovations in the portal, including a user system and Video-on-Demand service.

Weekly sale of films over the Internet



At the end of 2005, www.t-station.sk had 4,000 registered users while in December, the unique user rate reached 29,000.

In 2006, we will continue to further expand our Internet content offer, bringing yet more new and interesting services to our portal's visitors. In April 2006, we are planning to launch the service Music on Demand, in the first half of 2006 we also plan to introduce a games section Games on Demand and in the second half of the year, we want to launch a user blog section. Our activities in the area of Internet content are closely linked with the activities of our subsidiary Zoznam, s. r. o.

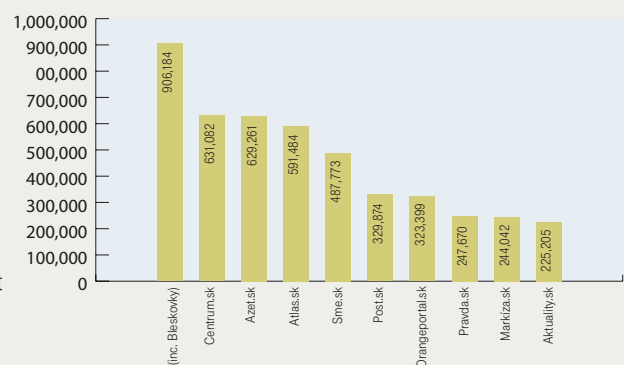
Our goals for 2006 include increasing the www.t-station.sk visitor rate to 10,000 unique users daily and to 70,000 monthly. We expect an increase in the sale of films via Video on Demand to over 500 per week.

Our acquisition of Zoznam, s. r. o. and Zoznam Mobile, s. r. o. in August 2005 confirmed our interest to strengthen our presence in the field of Internet services. The acquisition has enabled us to expand our position of market leader in Internet access to the dynamically evolving field of Internet and mobile content. Through Zoznam, s. r. o. and its www.zoznam.sk portal operation we have managed to significantly strengthen our know-how in the area of aggregation and content offer.

The most important and most frequently used services on Zoznam's portal are the catalogue of websites, search and freemail service as well as Bleskovky – the most visited Slovak Internet news server. Users can find useful information in magazines, dictionaries, travel time schedules, job pages, cultural event listings or real estate services.

In the framework of the Slovak Internet as a whole, the www.zoznam.sk portal enjoyed the highest visitor rate throughout the entire year with over 900,000 unique users a month.

Ranking of Slovak Internet servers by visitor rate in December 2005



For the coming period www.zoznam.sk wants to maintain its position of the most powerful Internet portal on the Slovak online market and, by bringing new services to the customer, increase its market share.

Fixed line products and services for business customers

The business customer segment reflects the overall positive development of the Slovak economy. This is fast developing area and is not so subject to the business cycle. Ever more companies are realising that by using appropriate telecommunications services they can serve their customers more efficiently and are seeking new products and solutions tailor-made to their business needs.

Our corporate clients appreciate our established and well-tested system of customer care. The system comprises Key Account Managers who take comprehensive care of customer's requests. Our Key Accounts Service Management Centre, which has been providing services for two years, deals with fault management and comprehensive technical servicing for our clients. Last year's innovation in the field of our corporate client care was the National Management Centre.

Voice communications service solutions for the corporate clientele reflect individual needs and offer new possibilities. Business Partner calling plans enable cost-effective telephone communication while retaining full convenience. With these customers, second-based billing is applied from the first second of each local, national, international call and calls to mobile phone networks. Free minutes included in Business Partner calling plans can also be used when making international calls from Slovakia.

Within Deutsche Telekom Group, we became the first company capable of combining traditional voice traffic with VoIP technology, creating an opportunity to position ourselves also on international markets.

Our unique Virtual Voice Network has scored significant success in this field. The service is a virtual PBX communication solution based on Next Generation Network technology. It enables our customers, regardless of company size and geographical distribution of branches, to communicate in a modern way, benefiting from the advantages of integrated voice and data communication at no additional investment.

Intelligent Network services enable companies direct contact with their customers and the provision of information over toll-free 0800 numbers, shared-cost numbers 0850 or premium-rate numbers 0900. The televoting service brings a fast and effective mass voting system and is an advantageous product for competition organisers. For the 0800 and 0850 services, we launched two programmes Basic and Plus last year, which are tailor-made to client needs enabling a substantial reduction of one-off as well as regular payments. The televoting service is a powerful tool enabling the user to obtain fast, reliable and up to date feedback from customers.

Complex communication solutions comprising our data services ensure fast transfer of information and servicing based on the latest technologies.

The Business CityNET service saves investment costs, simplifies network management and is designed for clients, who need to connect their branches within a certain town or city. The Business CityNET service interconnects a client's LAN networks into a VPN over a high-speed access according to individual requirements as to the communication and transmission rate. Along with the service, the client is offered to choose from a full array of supplementary services effectively matching our customers' existing communications needs (Internet, data, video, voice).

We are also capable of flexibly offering turnkey solutions, taking up the role of system integrator. We cooperate closely with a network of Slovak Telekom System partners and ST Solution partners, where the combined offers tailored to our customers' needs extend our service portfolio. At the end of 2005, the network comprised 60 system partners and 44 partner companies in the area of solutions.

The launch of the National Management Centre into operation was for us an important and positively received step. Our National Management Centre (NMC) enables the supervision and management of the operation of all of our administered communication networks (transmission, data, NGN) 24 hours a day, 365 days a year. Thanks to the round-the-clock

activities of NMC, Slovak Telekom can react with much greater flexibility to customer requirements in the area of network management and monitor in greater detail and diagnose potential events in all the networks administered.

Our backup data centres with extraordinary resistance and reliability for data backup provide special services. They are designed for clients with very high requirements concerning security and continuity of operation, such as the State Treasury of the Slovak Republic.

Our large and important customers include companies from the services sector, manufacturing, as well as the public and finance sector.

Fixed network services for other providers

Increased pressure and a strong competitive environment on the wholesale market resulted in a fall in service prices. Therefore, we focused our efforts on increasing the volume of sales and on developing new services.

As the first company in the region, we prepared NGN technology for VoIP-based interconnection with other operators. The technology will enable us to interconnect with VoIP operators, with the aim of providing termination, and mainly transit, of VoIP traffic. Thus, we have become a strong partner for international operators in the area of transit of VoIP traffic from and to all countries worldwide.

Last year we interconnected our network with principal global VoIP operators such as MCI USA, Teleglobe Canada and Telekom Malaysia. Interconnection with yet more operators from other countries is opening up for us an opportunity to create an international VoIP hub centre in our region.

Revenues from national and international voice services made up 58 % wholesale services revenues. The remaining 42 % was generated from national and international data services.

Transformation of networks and implementation of IP-based technologies have changed the business model, creating greater room for wholesale activities. The very perception of cooperation has changed. Our previous competitors have become today's partners using our technologies and services.

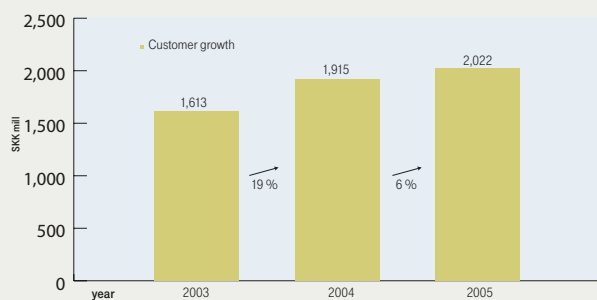
One of the most important wholesale data services launched in 2005 was the Carrier Backbone service, ensuring the interconnection of a given customer's individual PoP's, i.e. the creation of an overall solution for a customer's network needs. For 2006, we have started to prepare an extension to our service portfolio with new wholesale models, with the aim of further intensifying cooperation with our wholesale partners in the field of data services.

Mobile communications

For T-Mobile Slovensko, a. s., the past year was a historic milestone. The company successfully completed its integration into the Deutsche Telekom Group, becoming a part of T-Mobile International, one of the largest mobile telecommunications companies worldwide and the largest CEE mobile operator. In May 2005, the EuroTel brand changed definitively to T-Mobile. The change brought primarily new benefits for customers, who gained access to innovative products and services, exclusive mobile telephones and new mobile content. Following the results achieved towards the end of 2005 it may be concluded that Slovak customers have fully accepted the new brand and view it highly positively owing to the changes and new benefits.

The acceptance of the T-Mobile brand on the Slovak market was reflected in a year-on-year increase in the total number of customers by 6 %, thanks to which the company served over 2 million customers. Worthy of especial note is the strong growth in post-paid services, by more than 20 %, against 2004 year end, since T-Mobile Slovensko, a. s. in 2005 focused its efforts on targeting this customer group in particular. As at the year end, post-paid service customers totalled almost 800,000, representing almost 40 % of the total number of customers.

Overall growth in customer numbers at T-Mobile Slovensko, a. s. (thousands)



Along with the new brand launch, T-Mobile brought many innovations for customers. The new Relax calling plans featuring low-cost monthly fees gave customers a single rate for calls to all networks in Slovakia after using up free minutes.

Customers who subscribed to the Viac monthly plans benefited from calling Slovak Telekom network users at prices equal to T-Mobile network-terminated call prices after spending their free minute allowance.

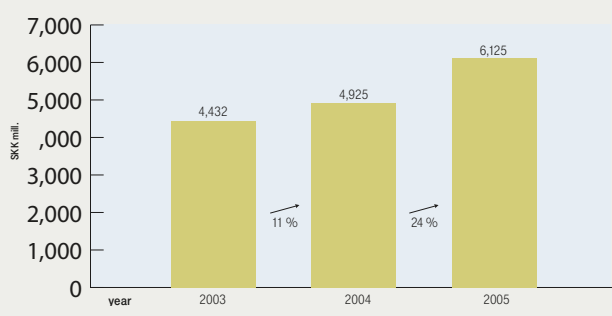
For business clients, T-Mobile prepared lower cost international calls over the service InterCall 33. The existing three zones were complemented with a new low-tariff T-Mobile zone comprising Hungary, Czech Republic, Austria, Croatia, Germany, Great Britain, the Netherlands and the USA. Business clients can call these destinations at a reduced tariff.

Successful projects in the business customer segment have had positive implications also on the achievements of T-Mobile Slovensko, which welcomed new large corporate customers such as Slovenské elektrárne, a. s. (Slovak Power Plants), Slovenská sporiteľňa, a. s. (Slovak Savings Bank), Poštová banka, a. s. (Post Bank) and many other large companies.

As the first company in Slovakia, T-Mobile Slovensko, a. s. launched the new communication technology Push-to-Talk based on data transfer of voice over GRPS (EDGE). Push-to-Talk provides advantages of instant group communication, enabling fast and effective communication with several persons at the same time similar to operating a radio transmitter – by pushing a single button on the mobile telephone handset. In October 2005 our subsidiary was the first national operator in the world to launch the new Fast Internet service based on the revolutionary wireless technology FLASH-OFDM. This enables Internet connection at a rate of up to 3Mb/s. At the year end, T-Mobile had 2,200 active customers using the services with the coverage of 30 towns including Bratislava and dozens of municipalities (30 % of the population).

Pursuing the objective of transforming mobile telephones to a tool supporting, besides ordinary communication, also entertainment and leisure, T-Mobile introduced for customers a revolutionary innovation in the area of mobile content – TV and video content streaming in both online and offline forms.

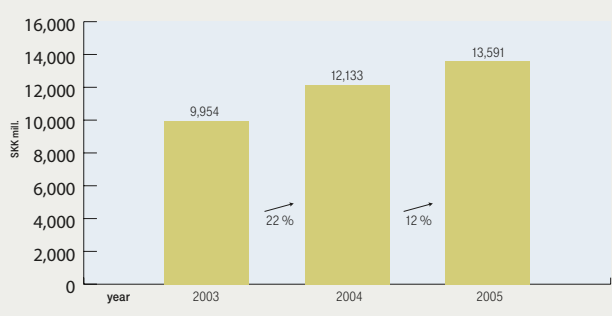
EBITDA (SKK mill)



Radio and TV signal broadcasting services

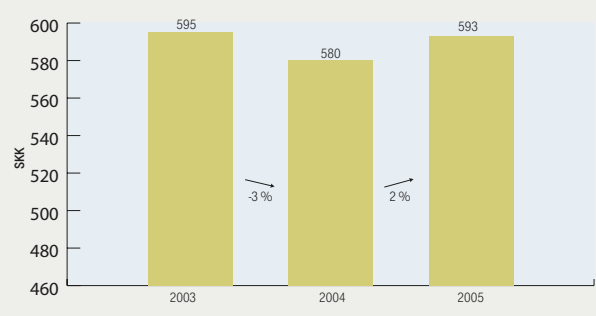
Our branch Rádiokomunikácie has the best conditions for successfully implementing digital television in DVB-T format in Slovakia, thanks to its dominant position in the market, know-how, existing network of masts and technology buildings, employee expertise, availability of radio and TV frequencies as well as experience with satellite digital broadcasting in DVB-S format.

Mobile Services Revenues (SKK mill)



In 2005 we continued in a digital television pilot project in the location Banská Bystrica – Zvolen and, after winning the respective tender, broadcasting was extended also to Bratislava. Success in tenders for pilot digital broadcasting is the basic precondition for our branch Rádiokomunikácie, o. z. to be able to continue with providing regular broadcasting, which is expected in the coming two years. Full transition to digital broadcasting is expected by the end of 2012 latest. As regards financial indicators, in 2005 the branch continued a trend of increasing economic efficiency, with revenues of SKK 1 billion and the EBITDA reaching 43 % alongside a 10 % reduction in staff numbers to 359 employees.

Average Revenue per User in SKK (ARPU)



Services of the Commercial Call Centre, o. z.

Our branch Commercial Call Centre, o. z. provides its clients full outsourcing services, namely leasing of agent seats, premises, lines, call centre agent training, reporting and call recording or partial outsourcing, i. e. use of only a selection of these activities. The services, which are provided in several foreign languages for clients in Slovakia and abroad in the sectors of banking, insurance, telecommunications services, entertainment, power engineering, the car industry, etc., can be divided into three basic groups.

The first group comprises inbound services, i. e. processing of incoming calls by professional call centre agents, made to a client's telephone number. This group includes e. g. the setup and operation of an information line or help desk, providing information about products and services.

The second group is formed by outbound services, i. e. the active contacting of clients. The services relate to telesales, market research, product promotion campaigns, customer retention programmes, and debt recovery.

The third group concerns back office services, i. e. processing of information, e. g. data received, orders, applications, correspondence, faxes.

Originally, the commercial call centre had 60 workplaces. That number has now more than doubled and the plans for 2006 assume a capacity increase to 250 operator seats, whereby Slovak Telekom creates vacancies in a region with high unemployment and provides young people with the opportunity for professional growth and gaining experience from working in a qualified position.

An innovative approach is the basis for future growth

Slovak Telekom recognises the global trends in the field of providing value-added services and therefore the company plans to enrich its product portfolio with several interesting services. In this way, the company is responding to the needs of Slovak telecommunications market and to new opportunities brought about by new technologies and Internet applications.

In future, we plan to provide services with significantly higher added value. We are considering launching "triple play" – a bundle comprising the Internet, voice and content services including TV and video. At the same time, we are assessing in detail the possibility of launching digital TV on the market. Digital television in Slovak Telekom's network should be available over several connection types (Ethernet, optics, microwave and, in selected cases, also DSL) bringing to the user a group of free programmes as well as optional paid TV (on a pay-per-view basis).

Another positive innovation will be the launch of the Voice over Internet service. This voice communication over the Internet service from Slovak Telekom will bring to customers, besides free voice communication over the Internet, also many other benefits: telephone numbers accessible from other networks (from the fixed network, from mobile networks, from abroad). Naturally, Voice over Internet will enable customers to make calls also to other networks at low-tariff prices. The service will bring greater flexibility of use compared to the traditional fixed line.

New business directions and substantial revenue streams include consultancy services offered by our experts abroad, development of commercial call centres offering comprehensive or supplementary services on a professional level along with the development and application of information and technological solutions for corporate customers.

A passion to share in success

Success is a proof that what you do, you do it the right way. To be a part of success encourages you to go on and get better.

■ Report of the Company's management



Information technologies play a key role

Although information technologies (IT) are, from the viewpoint of business activities of Slovak Telekom, a. s. a supporting process, in this period of the convergence of telecommunications and information technologies and the rise of NGN, the two areas can no longer be separated and IT plays a principal supporting role to the telecommunications services and solutions we offer. Our IT experts help provide solutions and services not only within our company, but also participate in supplying solutions for third parties. Thus, information technologies have a large share in the dynamic progress of the company which, given the highly competitive environment, must adapt all its systems to match the needs of the customer.

Fellow subsidiaries of T-Com (within the Deutsche Telekom Group) closely cooperate, seeking synergies wherever possible. They jointly make use of the specialised know-how of its individual members, thus making their activities significantly more efficient. IT specialists from Slovakia, Croatia, Hungary and Macedonia concentrate, under guidance from the T-Com division, on these principal programmes: processes and IT strategy, IT standardisation, IT Reporting and Centre of Excellence.

The Centre of Excellence programme means the setting up of regional centres for development and application of solutions, which can be used in several operations in individual countries. Slovak Telekom, a. s. is the leader within the Group in activities related to the Centre of Excellence in the areas of billing and customer care, which can be said to be two of the most important fields.

Another area in which our company has gained leadership is in unification of IT Service Catalogue and Cost Model (stramlining project).

The need to ensure maximum efficiency in expenditures pushes us to look for all possibilities to optimise processes. We therefore outsource certain services. This is a process that must be done with great care, given the high level of security and compliance with processes.

Key IT projects in 2005

As regards operating internal processes in Slovak Telekom, a. s., one of the major successes was the implementation of electronic archiving of all data EER (Electronic Enterprise Registry), which has become a standard model throughout the Deutsche Telekom Group.

From the aspect of future close cooperation, a very important project for us was the implementation of a support system for sales points identical to the system used by our subsidiary T-Mobile Slovensko, a. s. An identical system solution from a common supplier will enable not only the very operative provision of customer services but will also make it possible to interconnect and potentially merge sales points. Similar steps were taken in implementing support systems in the area of HR. Common solutions within the Slovak Telekom Group will bring in significant benefits for our colleagues from various organisation units while saving costs.

The introduction of the Data Warehouse marks a milestone in the history of Slovak Telekom, a. s. While our legacy IT system provided our sales and marketing experts with a retrospective view, the Data Warehouse system gives them the possibility to predict. From reacting to a problematic situation we moved forward to future-oriented modelling of situations (Predictive Technologies). The Data Warehouse system improves our capacity to obtain and analyse business information, thereby enabling fast and correct decision making. The solution is built around cutting-edge technologies and in 2005, the first three functional areas were implemented: Revenue Assurance, Business Intelligence and Churn Prediction.

IT perspectives

With regard to future development, we can divide our activities into basic, telecom-specific fields, which are very complex, and so-called commodity areas, which, given the current market conditions, no longer play a key role.

The part of information technologies tied to older products will gradually shrink and be replaced by new ones, which will lead to a decrease and simplification of the currently extensive complexity of products and services. We anticipate that in the course of the coming few years the situation on the market will change and consumers will opt for a flat service package meeting all their needs. Remaining services, which the consumer will want to use only occasionally, will be ordered and paid over the Internet on an e-commerce basis.

Also in the coming years, information and communication technologies will continue in coming to resemble one another and converge.

The principal impact on the activities of and high demands for support from the side of IT arises from observing regulatory and control mechanisms, e. g. compliance with the conditions of the Sarbanes-Oxley Act. Given the security of processes operated, this legislation requires thorough separation of activities related to critical systems in a company and a strict control mechanism forces entities to observe the process and system management lifecycle.

In the near future, we will have to cope also with new European regulation on archiving (regarding all communication flows, e. g. email, voice, SMS, data, etc.), increasing effectiveness in combating terrorism. We are prepared to take part in combating terrorism via all available means including the use of modern telecommunications technologies.

A Company's success stands on the skills and motivation of its employees

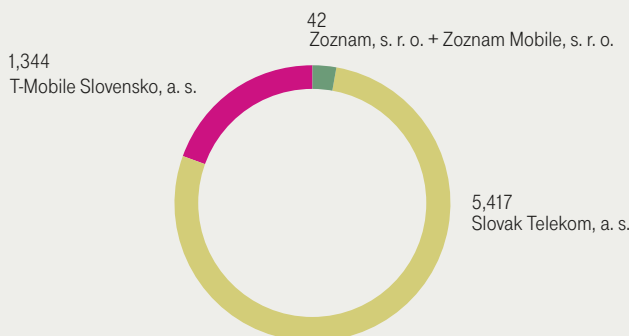
We can successfully face the demanding conditions of the telecommunications environment and achieve our goals only if we are able to rely on qualified, loyal and motivated employees. In the transformation period, organisational changes have become the standard, and the flexible adaptation of the number and structure of staff is now a necessity. To address new conditions and areas of business, we seek and gain specialised professionals from the labour market. The proper and motivating assessment of performance can provide a cornerstone, but our success is also based on outstanding results achieved in independent surveys of employer attractiveness, in which our company has for some time now been ranked among the top ten employers.

We dedicate a high degree of care to preparing employees for new tasks and quantitative as well as qualitative changes. Given the high pace of changes, permanent training and further qualification is natural, ensuring that our workforce meets requirements arising from the deployment of modern technology.

In the past year, we conducted 1,721 job interviews, resulting in placements in 755 vacancies.

At the year end, the number of Slovak Telekom Group employees totalled 6,803. Slovak Telekom, a. s. had 5,417 employees (inclusive of branch staff), T-Mobile Slovensko, a. s. had 1,344 and Zoznam, s. r. o. and Zoznam Mobile, s. r. o. 42 employees.

Number of Slovak Telekom Group employees



Employee satisfaction survey

In September 2005, employees of Slovak Telekom, a. s. took part in an employee satisfaction survey organised throughout the entire Deutsche Telekom Group. Close to 57 % of employees expressed their opinions in an extensive questionnaire. Employees provided feedback to the employer, communicating their interest to participate in the development of the entire company and in improving working conditions. The survey outcomes showed a high level of commitment by our employees and interest in more detailed information from the area of corporate strategy.

From the viewpoint of organisation, the outcomes highlighted the complexity of internal processes and room for their streamlining and simplification.

Transparent evaluation – a prerequisite for fair remuneration

The remuneration system used in our company reflects both the internal and external environment to ensure that the reward of performance is fair, motivating and also competitive on the labour market. In 2005 we introduced several changes in the area of base salaries, variable pay, extraordinary performance bonuses as well as benefits provided. In the field of social benefits, the flexible benefit system has proven to be convenient, enabling our employees to choose from a wide range in the area of health care, recreation, cultural events or a contribution to supplementary pension insurance.

Company transformation and employment

The transformation process and improvement in the company's efficiency and competitiveness brings also measures reducing staff numbers. Slovak Telekom, a. s. dedicates all efforts to enable employees affected by such reductions in staffing levels, to apply for newly-created vacancies. The company supports them by means of re-qualification and development programmes. Where it is not possible to offer an employee a relevant job in the company, we endeavour to make the situation easier for the employee in their departure and in seeking new employment. Leaving employees receive financial support to facilitate the transition period and are also provided with information regarding social and legal aspects, as well as assistance in further re-qualification.

Investment in education underlies our Company's competitiveness

Lifelong education and the continual enhancement of qualification is natural in the world of telecommunication technologies. Besides Start Day, the introductory training for new staff, Slovak Telekom, a. s. encourages its employees to choose from a broad array of training and development programmes available. In 2005, the company conducted 1,462 training sessions, attended by 19,300 participants. The programmes were focused on gaining new knowledge in technical and product-related areas, personality development, improving language skills and developing managerial and communication skills. More than 600 employees took part in training in the area of project management in order to gain the project management tools necessary in the transformation process.

Over the past year, Slovak Telekom, a. s. applied over SKK 60 million to training activities, with each employee devoting on average 5 to 6 days to his/her development. In December 2005 we launched a new highly prospective form of education via e-learning.

Cooperation with universities

Attracting young talented graduates from colleges and universities is a key determinant for the further development of our business. Slovak Telekom, a. s. cooperates with universities in the preparation of curriculum content, as well as in linking academic education with business practice. An innovation in this field, presented in 2005, was Telecom Day – the first interactive student conference for selected 100 students of technical specialisation held in November 2005 and aimed at stimulating and increasing of students' interest in working for Slovak Telekom, a. s.

Communication with universities facilitates the presentation of Slovak Telekom, a. s. as a top employer and a technology leader in Europe. The company provides talented young people with an opportunity to participate in a three-month placement within the Deutsche Telekom Group.

Directions in the area of human resources in 2006

The workforce structure is subject to huge pressure calling for change from both qualitative and quantitative aspects. Changes in technologies result in lower employment required, especially in the area of traditional voice telephony, and an increase in the need for specialised experts in the field of data, Internet and network applications.

We strive to achieve mutual synergies among the companies forming the Slovak Telekom Group, intensifying cooperation with our subsidiaries. This brings a gradual approximation of corporate culture and the perception of the company as a customer-oriented service organisation.

A modern telecommunications operator, too, needs attractive forms of communication

Today, corporate communication plays an irreplaceable role in the ever fiercer competitive environment of the dynamically developing telecommunications market. Communication strategies for achieving communication objectives towards the external public are pursued in support of our Company's business activities and for reinforcing our good name. Internal communication activities are a very effective tool for enhancing corporate culture and particularly employee loyalty. Our aspiration is fair conduct to the greatest possible degree, ensuring all stakeholders receive accurate, sufficiently fast and quality information. We subject our activities not only to the rules set out in the Code of Ethics for Employees but also to the internationally recognised principles defined in the Sarbanes–Oxley Act. In the case of extraordinary situations, we follow rules codified in the Crisis Communications Manual.

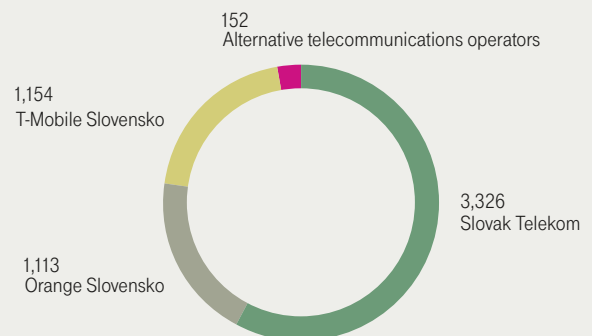
Corporate communication

Our Company's corporate communication embodies a systematic and professional approach to challenges of the external and also internal world; its task being to cover and ensure the overall communication by Slovak Telekom, a. s. towards the public as well as its employees. This encompasses a wide array of activities from media communication to providing expert opinions to state, public, and professional institutions and associations, communication with employees, administering and updating the presentation of our company on the Internet and at various forums, through to organising events and publishing annual reports. Through corporate communication we strive also to increase the perception of our Group as a responsible corporate citizen.

The manner and scope of our corporate communication is affected by the current situation in the telecommunications market and by the communication of other market players. At the same time, corporate communication proceeds in line with marketing communication, both mutually supporting each other and pursuing the same goal – through building a positive image and spontaneous brand awareness, to facilitate the sale of our products and services.

On a long-term perspective, Slovak Telekom, a. s. has been in the centre of media attention, since through its activity it significantly affects events in the Slovak telecommunications market. In 2005, we generated 3,326 media outputs, with a predominance of positive and objective publicity (95 % of all outputs). Topics relating to legislation, regulation, corporate themes as well as product topics focusing on the Internet and data services resonated in the media.

Number of media outputs by leading telecommunications market players



Internal communication again in 2005, was a key instrument for developing and strengthening the corporate culture. Its main goal was to provide employees with all the information necessary for their work and supporting their motivation. Key topics from corporate life were also presented and opened up to employees.

Information is disseminated to the staff not only via the internal magazine and the Intranet portal, but also in the form of intra-company television news broadcasting, which has received a very positive response.

The quality and integrity of internal communication can be documented by the fact that as many as 90 % employees who took part in the company's employee satisfaction survey in 2005 considered the corporate intranet to be a credible source of information and expressed satisfaction with the portal.

Both Slovak Telekom, a. s. and T-Mobile Slovensko, a. s. are a direct part of the international Deutsche Telekom Group, and therefore they contributed in a significant and active way to internal communications within the Group.

Marketing communication

In 2005, we commenced upon an attractive communication strategy, facing down strong media pressure from the competition. Not only did we use it to address our customers effectively and comprehensibly; we also succeeded in convincing them to opt for our products, services and solutions.

The success of our new approach to communication can be illustrated with the rate of fulfilment of the marketing and communications objectives. We managed not only to keep the pace with the principal competing operators; we also achieved, despite a lower advertising budget, better parameters in communication effectiveness (general awareness of advertising 38%, source: GfK, ATS Report, October 2005).

Several awards received in national and also international competitions also confirm our success in the field of marketing communication. In the marketing communication effectiveness competition EFFIE Slovakia, we won one silver and two bronze awards. As regards communication, 2005 has been our most successful year yet, since all three communication campaigns entered in the competition received awards. The evaluation criteria take account not only of the creative aspect, but concentrate most on the campaign's effectiveness and impact of the communication on achieving sales objectives. On the international stage, we received the two highest awards "Golden Stone" in a Czech competition for creative communication.

The principal event of 2005 in terms of communication was the rebranding of our subsidiary and the introduction of the world-class brand T-Mobile in Slovakia. The change concluded a successful 14 years of the EuroTel brand in Slovakia. The most important challenge for the new brand following its launch on the market was to retain its customers while sending a clear signal to all existing and potential customers that Slovakia was seeing the coming of a new world-class operator, which would bring innovative products and an improved level of service provided.

The rebranding of T-Mobile was extraordinarily successful. Within a few weeks from its launch on the market, the brand scored high awareness and preference rates among existing and potential customers.

In 2006, the principal communication challenge will lie in successfully communicating the business name and corporate brand Slovak Telekom, a. s. and communication support to the launch of the new business brand T-Com for both the external and internal target audience.



A passion to help

■ Corporate Social Responsibility

We give back the confidence that
our customers have placed in us.
We give it back for everyone to feel.



Corporate Social Responsibility

Corporate social responsibility is one of the basic attributes of a modern company, which wishes to apply high ethical principles voluntarily in its everyday activities. We feel committed not only to our product quality but also to the quality of life within the community we conduct business in. We strive to achieve that the brand of Slovak Telekom be connected with the image of a telecommunications leader bringing to Slovakia's population a modern lifestyle and at the same time with the notion of a responsible corporate citizen. We are one of the founding members of the Business Leaders Forum, which aims to promote the principles of corporate social responsibility.

Our strategy in sponsorship and philanthropy is based on the corporate social responsibility of our parent company, Deutsche Telekom AG. In order that assistance is targeted, effective and brings results where needed most, we grouped our activities in 2005 into 3 strategic areas.

Our Company is a leading corporate philanthropist

We help those in need who cannot in their current situation find a way out without the help of donors. We want to contribute to improving the life of people in Slovakia and have for a long-time now cooperated in nationwide projects, prepared by national and international charity organisations. Along with these activities we also develop our own projects and are willing to give a helping hand and dedicate our time to meaningful volunteer work.

In 2005, too, we continued supporting the project Life Lines providing support and consultancy to people with mental or physical problems and in life threatening situations. We financially contribute to operation of the Euroline, where Slovak citizens can obtain information related to the European Union and Slovakia's membership in the EU. The Foundation for the Children of Slovakia and its project An Hour for Children, the Association of Friends of Children from Children's Homes with their initiative Smile as a Gift, or the international organisation UNICEF were beneficiaries of our help.

In 2005, Slovak Telekom, a. s. was among the first companies to organise volunteering weekends to help the High Tatras afflicted by the natural disaster there. We are very proud that our employees devoted their free time over weekends in cooperation with the crisis centre Sniežko for abused women with children in the village of Štitáre near Nitra.

We dedicated funds for the preservation of historical buildings, forming a part of Slovakia's cultural heritage. Our subsidiary T-Mobile Slovensko, a. s. joins in the common principles of the Group's philanthropy, cooperating on a long-term basis with the Slovak Association of People with Hearing Problems, the Peter Dvorský Foundation Harmony, The Foundation for the Children of Slovakia and the Pontis Foundation. Each year the company organises a unique community grant programme for its employees "T-Mobile helps the community", implements projects aimed at helping handicapped groups of the population and supports community projects in the regions in which it operates.

We are the leader in building the information-communication society

After the year 2004, in which we donated to all primary and secondary schools a PC classroom with Internet connection, we focused our attention last year primarily on supporting digital literacy. We helped people who had not had the opportunity to work with a PC and the Internet to overcome barriers, and to learn to use modern information sources, thereby increasing their chances of success in the labour market. We organised Internet courses named *www.každom.veku* (in every age) at 40 different locations throughout Slovakia.

Again, we prepared for pupils and students competitions, now running for their second year. The competitions *eČasopis* (eJournal), *Žiacka knižka* (Student's Book) or *eTablo* were aimed at informally supporting the creation of interesting Internet content among young people.

Supporting the arts

In the field of culture Slovak Telekom, a. s. has linked its name with the highest quality. Last year, our support was directed primarily to the film-making and theatre, i. e. those genres closest to Slovaks. We were pleased that we were behind the creation of two original Slovak films – an exclusive documentary by Pavol Barabáš titled *Amazónia Vertical* and the film *End Station* (*Konečná stanica*). In 2005, we were a partner to *Art Film* – the international film festival in Trenčianske Teplice.

In the area of theatre, we continued in our partnership with the theatre *Aréna*, in which we presented the play "Oscar and the Lady in Pink". Our cooperation with the Nitra Theatre of A. Bagar led to the presentation of the first Slovak theatre reality show "Horses Get Shot, Too". We also supported various culture festivals of minorities living in Slovakia, striving to support nationwide perception and acceptance of diversity in culture and nationality.

Our activities receive praise from the professional public at home and abroad

In early October our project *PCs for Schools* was "Highly Commended" by the international expert jury of the contest *World Communications Awards 2005*. The supply of over 22,000 PCs and related communications software, their connection to computer networks at some 3,600 schools and subsequent connection to the Internet made the initiative the largest in informatisation of Slovakia's schools as well as being a unique project as regards timing and organisational aspects.

The project *PCs for Schools* recorded success also at the prestigious European event *The European Marketplace on CSR in Brussels*. The expert commission ranked the project among the 100 most successful projects contributing to community development.

Last but not least, our internetisation efforts received one further award. In May 2005, the *Pontis Foundation* awarded the project *PCs for Schools* the prize *Via Bona Slovakia 2004*.

Our company's activities in the field of philanthropy, corporate social responsibility and sponsorship activities will in 2006 continue to reflect our company's strategy to communicate the values of the new corporate and business brand in a socially attractive way.

Corporate social responsibility is a consistent component of the company's values, to which aspire all companies of the Slovak Telekom Group.

Financial results of Slovak Telekom Group



■ Consolidated Financial Statements



Slovak Telekom, a.s.
Auditor's Report and
IFRS consolidated financial
statements for the year ended
31 December 2005

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General information

These consolidated financial statements have been prepared for Slovak Telekom, a.s. ("the Company" or "Slovak Telekom", formerly Slovak Telecom, a.s.) and its subsidiaries T-Mobile Slovensko, a.s. („T-Mobile“, formerly EuroTel Bratislava, a.s.), Zoznam, s.r.o. („Zoznam“), Zoznam Mobile, s.r.o. („Zoznam Mobile“), RK Tower, s.r.o. and TBDS, a.s. (together „the Group“).

The Company was incorporated as a joint-stock company in the Slovak Republic on 1 April 1999. On 4 August 2000 Deutsche Telekom AG obtained control of the Company through the acquisition of 51% of the shares of Slovak Telekom. The transaction involved the purchase of existing shares from the Slovak Government and the issue of new shares. The Slovak Government retained 49% of the shares of the Company through the Ministry of Transport, Posts and Telecommunications of the Slovak Republic ("MTPT") (34%) and the National Property Fund (15%).

The Company's subsidiary, T-Mobile, was founded in 1996 as a joint venture between Atlantic West B.V. ("AWBV") and Slovak Telekom. On 31 December 2004 Slovak Telekom completed the purchase of the shares held by AWBV and became the sole shareholder of T-Mobile. On 24 March 2005 the name of the subsidiary was changed from EuroTel Bratislava, a.s. to T-Mobile Slovensko, a.s..

On 31 August 2005 the Company purchased 90% of the shares of Zoznam and 100% of the shares of Zoznam Mobile.

TBDS, a.s. was established by the Company on 20 April 2005 and the subsidiary, RK Transmission, s.r.o was liquidated on 31 December 2005.

The Company is the principal supplier of fixed-line telecommunication services in the Slovak Republic and owns and operates the majority of the telecommunications facilities therein. The Company provides local, national and international telephony services and a wide range of other telecommunications services including leased lines, data networks and narrowband as well as broadband internet services. It also provides residential and business customers with products ranging from standard telephones to computer communications networks.

Through its subsidiary T-Mobile, it operates an analogue technology NMT 450 mobile telephony network and GSM standard technology 900 MHz and 1,800 MHz frequency mobile telephony networks. T-Mobile holds a licence for the implementation and operation of a public mobile communications network based on the UMTS standard and announced the commencement of commercial UMTS services from January 2006.

Through its subsidiaries, Zoznam and Zoznam Mobile, the Company is the provider of the internet portal www.zoznam.sk and develops mobile entertainment content and software for mobile phones.

The Company is also the owner and operator of radio and television transmission equipment.

Staff numbers	2005	2004
Number of employees at period end	6,803	7,380
of which T-Mobile	1,344	1,311

The figures are presented net of employees leaving the Group at 31 December 2005.

Reporting currency

The Group's functional currency is the Slovak crown ("SKK"). The consolidated financial statements are presented in millions of SKK.

Registered address

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

Consolidated Income Statement at 31 December

(All amounts are in millions of Slovak crowns, unless otherwise stated)

	Notes	2005	2004
Fixed network and broadband		14,009	15,722
Mobile communications		13,994	-
Other		1,201	1,122
Revenue	5	29,204	16,844
Staff costs	6	(4,179)	(3,709)
Material and equipment		(2,987)	(1,044)
Depreciation and amortisation		(9,858)	(6,498)
Interconnection fees		(3,631)	(2,383)
Other operating costs, net	7	(5,599)	(2,017)
Operating costs		(26,254)	(15,651)
Share of profit of joint venture		-	1,177
Financial expense	8	(561)	(299)
Financial income	9	289	517
Profit before tax		2,678	2,588
Taxation	10	(689)	(281)
Consolidated net profit		1,989	2,307

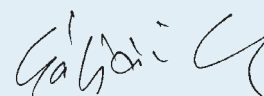
The consolidated financial statements on pages 74 to 103 were authorised for issue on behalf of the Board of Directors on 23 March 2006 by:



Ing. Miroslav Majoroš
Chairman of the Board of Directors
and President



Ing. Štefan Bugár
Vice Chairman of the Board
of Directors



Szabolcs Gáborjáni-Szabó
Member of the Board of Directors
and Senior Executive
Vice-President/CFO

Consolidated Balance Sheet at 31 December

(All amounts are in millions of Slovak crowns, unless otherwise stated)

	Notes	2005	2004
ASSETS			
Non-current assets			
Property, plant and equipment	11	44,963	47,210
Intangible assets	12	18,589	19,716
Deferred expenses and other non-current assets		516	463
Total non-current assets		64,068	67,389
Current assets			
Inventories	14	398	423
Receivables and prepaid expenses	15	4,052	3,592
Income tax		1	444
Cash and short-term deposits	16	3,785	5,662
Total current assets		8,236	10,121
Assets held for sale	17	46	313
Total assets		72,350	77,823

Consolidated Balance Sheet at 31 December (continued)

(All amounts are in millions of Slovak crowns, unless otherwise stated)

	Notes	2005	2004
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital		26,028	26,028
Share premium		11,632	11,632
Statutory reserve fund		1,222	1,183
Retained earnings		9,992	12,003
Other reserves		4,446	4,779
Total equity attributable to equity holders of the parent		53,320	55,625
Minority interests		3	-
Total equity	18	53,323	55,625
Non-current liabilities			
Borrowings	19	2,805	7,324
Deferred tax	10	5,671	5,816
Trade and other payables and deferred income	20	887	881
Provisions	21	175	144
Total non-current liabilities		9,538	14,165
Current liabilities			
Borrowings	19	632	672
Income tax		518	-
Trade and other payables and deferred income	20	7,022	6,767
Provisions	21	1,317	594
Total current liabilities		9,489	8,033
Total liabilities		19,027	22,198
Total equity and liabilities		72,350	77,823

Consolidated Statement of Changes in Shareholders Equity

(All amounts are in millions of Slovak crowns, unless otherwise stated)

	Notes	Share capital	Share premium	Statutory reserve fund	Retained earning	Other reserves	Minority interests	Total equity
Year ended 31 December 2004								
At 1 January 2004		26,028	11,632	839	10,040	-	-	48,539
Allocation to funds		-	-	344	(344)	-	-	-
Acquisition of subsidiary		-	-	-	-	4,779	-	4,779
Net profit for the year		-	-	-	2,307	-	-	2,307
At 31 December 2004		26,028	11,632	1,183	12,003	4,779	-	55,625
Year ended 31 December 2005								
At 1 January 2005		26,028	11,632	1,183	12,003	4,779	-	55,625
Dividends		-	-	-	(4,300)	-	-	(4,300)
Net gain on cash flow hedge		-	-	-	-	6	-	6
Allocation to funds		-	-	39	(39)	-	-	-
Release of revaluation reserve	18	-	-	-	339	(339)	-	-
Acquisition of subsidiary	4	-	-	-	-	-	3	3
Net profit for the year		-	-	-	1,989	-	-	1,989
At 31 December 2005		26,028	11,632	1,222	9,992	4,446	3	53,323

Consolidated Cashflow Statement at 31 December

(All amounts are in millions of Slovak crowns, unless otherwise stated)

	Notes	2005	2004
Profit before tax		2,678	2,588
Adjustments for:			
Depreciation and amortisation		9,858	6,498
Interest expense / (income), net		318	(265)
Share of profit of joint venture		-	(1,177)
(Gain) / loss on disposals on property, plant and equipment fixed assets		(198)	36
Foreign exchange loss / (gain) and other non cash items		39	(139)
Movements in provisions		700	259
Operating profit before working capital changes		13,395	7,800
(Increase) / decrease in inventories, receivables and prepaid expenses		(413)	478
Increase in trade and other payables and deferred income		149	291
Cash generated from operations		13,131	8,569
Income taxes received / (paid)		58	(532)
Net cash flows from operating activities		13,189	8,037
Cash flows used in investing activities			
Acquisition of subsidiary, net of cash acquired	4	(129)	(9,369)
Interest received		127	511
Purchase of intangible assets and property, plant and equipment		(7,474)	(6,250)
Proceeds from sale of property, plant and equipment		916	146
Proceeds from sale of available-for-sale investments		-	40
Net cash used in investing activities		(6,560)	(14,922)
Cash flows used in financing activities			
Proceeds from borrowings		20	-
Repayment of borrowings		(4,449)	(653)
Interest paid		(493)	(235)
Payments on derivatives		(84)	(194)
Dividends paid		(3,500)	(2,056)
Net cash used in financing activities		(8,506)	(3,138)
Net decrease in cash and cash equivalents		(1,877)	(10,023)
Cash and cash equivalents at 1 January		5,662	15,685
Cash and cash equivalents at 31 December		3,785	5,662

The notes on pages 74 to 103 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. Accounting policies

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

1.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except where disclosed otherwise in the accounting policies below. The consolidated financial statements are presented in Slovak crowns and all values are rounded to the nearest million.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December for each year. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that control ceases.

The acquisition of Zoznam and Zoznam Mobile on 31 August 2005 has been accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets and liabilities acquired and contingent liabilities assumed at the date of acquisition. Accordingly, the

consolidated financial statements include the results of Zoznam and Zoznam Mobile for the four-month period from their acquisition. Minority interests represent the portion of profit and net assets in Zoznam and Zoznam Mobile not held by the Group, and are presented separately in the income statement and within equity in the balance sheet, separately from Slovak Telekom's equity.

1.2 Property, plant and equipment

Cost

Property, plant and equipment, except for land, is carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. The cost of property, plant and equipment acquired in a business combination is fair value as at the date of acquisition. Land acquired before 1991 is stated at the values assigned to it by the State and land purchased thereafter is carried at acquisition cost.

Cost includes all costs directly attributable to bringing the asset into working condition for its intended use. In the case of the network, this comprises all expenditure up to the distribution points within customers' premises, and includes contractors' fees, materials and direct labour. The cost also includes the replacement costs of such plant and equipment when those costs are incurred, if the recognition criteria are met.

Maintenance, repairs and minor renewals are charged to the income statement as incurred.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

Notes to the consolidated financial statements (continued)

1. Accounting policies (continued)

1.2 Property, plant and equipment (continued)

Depreciation

Depreciation is calculated on a straight-line basis from the time the assets are available for use, so as to write down their cost to their estimated residual values over their useful lives. The depreciation charge is identified separately for each significant part of an item of property, plant and equipment.

The useful lives assigned to the various categories of property, plant and equipment are:

Freehold buildings	8 to 50 years
Duct, cable and other outside plant	30 years
Telephone exchanges and related equipment	4 to 13 years
Radio and television equipment	8 to 30 years
Other fixed assets	2 to 30 years

No depreciation is provided on freehold land and capital work in progress.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted where appropriate, at each financial year-end.

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

When property, plant and equipment meet the criteria to be classified as held for sale, they are stated at whichever is the lower of their carrying amount and fair value less costs to sell, and reclassified from non-current to current assets. The Group measures an item of property, plant and equipment that ceases to be classified as held for sale at the lower of:

- its carrying amount before the asset was classified as held for sale, adjusted for any depreciation and amortisation that would have been recognised had the asset not been classified as held for sale, and
- its recoverable amount at the date of the subsequent decision not to sell.

1.3 Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Notes to the consolidated financial statements (continued)

1. Accounting policies (continued)

1.4 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. With the exception of goodwill (see above), intangible assets have a finite useful economic life and are amortised using the straight-line method and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The useful lives and the amortisation methods for intangible assets are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

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

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

Customer contracts and related customer relationships	4 to 13 years
Brand	5 years
Licences	10 to 20 years
Software and other	2 to 5 years

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

1.5 Impairment of assets

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is whichever is the higher of the cash-generating unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time-value of money and the risks specific to the asset. Goodwill accounted for provisionally and not allocated to any cash generating unit is not considered for impairment testing as the purchase price includes estimates and is subject to change.

1.6 Leased assets

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

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

Notes to the consolidated financial statements (continued)

1. Accounting policies (continued)

1.6 Leased assets (continued)

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 made to the lessor by way of penalty is recognised as an expense in the period in which the termination takes place.

1.7 Borrowing costs

Borrowing costs are recognised as an expense when incurred.

1.8 Inventories

Inventories are stated at whichever is the lower of cost and net realisable value. Cost is calculated on a weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. An allowance is created against slow-moving and obsolete inventories.

1.9 Trade and other receivables

Trade receivables, which generally have 14-60 days' terms, are carried at the original invoice amount less an allowance for any uncollectible amounts. An allowance is made when there is objective evidence that the Group will not be able to collect the amounts due. In determining the allowance, the Group distinguishes between receivables that prove to be uncollectible and receivables related to contracts that are later identified as being concluded with fraudulent intention. Any increase in the allowance related to customer fraud is accounted for as a reduction in revenue.

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

1.10 Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the cash flow statement, cash and cash equivalents comprise cash in hand and short-term deposits with an original maturity of three months or less, net of bank overdrafts. In the balance sheet, bank overdrafts are included in borrowings in current liabilities.

1.11 Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

1.12 Derivative financial instruments and hedging activities

The Group uses derivative financial instruments such as forward currency contracts and cross-currency swaps to hedge the risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured to fair value.

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

Notes to the consolidated financial statements (continued)

1. Accounting policies (continued)

1.12 Derivative financial instruments and hedging activities (continued)

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken to the income statement in the year in which they arise.

For the purpose of hedge accounting, hedges are classified as

- a) fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability;
- b) cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecast transaction.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply the hedge accounting, the risk management objective and the strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting of changes in fair value or cash flows and are assessed on an ongoing basis to determine that they have actually been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is re-measured at fair value, and gains and losses from both are taken to profit or loss.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, if the hedge no longer meets the criteria for hedge accounting, or if the Group revokes the designation.

Cashflow hedges

Cashflow hedges are a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss. Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged financial income or a financial expense is recognised or when a forecast sale or purchase occurs.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in equity are recycled to profit and loss.

Notes to the consolidated financial statements (continued)

1. Accounting policies (continued)

1.13 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

If the effect of the time-value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Termination benefits

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

Asset retirement obligations

Asset retirement obligations relate to future costs associated with the retirement (dismantling and removal from use) of non-current assets. The amount of the asset retirement obligation initially recognised in the period in which incurred is considered an element of the cost of the related non-current asset in accordance with IAS 16. The obligation is accreted to its present value each period, and the capitalized cost is depreciated over the estimated useful life of the related non-current asset. The increase in the provision due to unwinding of the initial discount is recognized as interest expense. Upon settlement of the liability, the Group either settles the obligation for its recorded amount or incurs a gain or loss upon settlement.

1.14 Revenue recognition

Revenue is recognised upon delivery of services and products and customer acceptance thereof and to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue for rendering services and customer equipment sales is shown net of value added tax and discounts.

The Group recognises revenue from fixed network, broadband and mobile communication services as follows:

Access fees and charges for incoming and outgoing telephone calls and other traffic are recognised in revenue in the period in which the service is rendered.

Connection fees are deferred over the expected customer retention period. This period is estimated on the basis of the anticipated term of the customer relationship under the arrangement which generated the connection fee. Costs incurred in providing the connection, to the extent of the connection fees, are recognised as an asset and amortised over the same period.

Interconnect revenue derived from calls and other traffic that originate in other operators' networks is recognised in revenue at the time when the call is received in the Group's network. The Company pays a proportion of the revenue it collects from its customers to other operators for calls and other traffic that originate in the Group's network but use other operators' networks.

Content revenue is recognised gross or net of the amount due to the content provider, when the latter is responsible for the service content and the Group acts as an agent without assuming the risks and rewards of the ownership of the services.

Revenue from bundled offers is considered as comprising identifiable and separable components to which general revenue recognition criteria can be applied separately. Numerous service offers are made up of two components, a product and a service. Once the separable components have been identified, the amount received or receivable from the customer is allocated based on each component's fair value. The revenue recognised is limited to the consideration received.

Revenue from sales and rental of equipment is recognised when the equipment is delivered and installed at customer premises.

Notes to the consolidated financial statements (continued)

1. Accounting policies (continued)

1.15 Foreign currency translation

The consolidated financial statements are presented in Slovak crowns, which is the Group's functional and presentation currency.

Transactions denominated in foreign currencies are recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

All foreign exchange differences are recognised within the income statement in the accounting period in which they arise, with gains and losses incurred as part of operating activities being included within operating costs and gains and losses arising from foreign currency financing activities being included within financial income or expense, as appropriate.

1.16 Taxes

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to calculate the amounts are those enacted at the balance sheet date.

Deferred tax

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

Deferred tax liabilities are recognised for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences, the carry-forward of unused tax credits and unused tax losses can be utilised, except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

1.17 Social security and pension schemes

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

1.18 Comparatives

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

Notes to the consolidated financial statements (continued)

1. Accounting policies (continued)

1.19 Significant accounting estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, which bear a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired on at least an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to apply a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2005 was SKK 2,328 million (2004: SKK 2,209 million); see Note 11.

Useful life of customer contracts

Customer contracts and related customer relationships are the most significant intangible asset identified in the purchase price allocation resulting from business combinations. The initial valuation is based on the planned cash flows arising from existing customer contracts as of the acquisition date adjusted by the estimated churn rate. The Group has estimated the useful life of customer contracts and related relationships acquired in business combinations to be from 4 to 13 years. The carrying amount of customers' contracts and related customer relationships at 31 December 2005 was SKK 11,185 million (2004: SKK 12,250 million); see Note 10.

1.20 Adoption of IFRS during the year

The Group has adopted the following revised standards during the year. Adoption of the standards did not have any effect on equity as at 1 January 2004.

- IAS 1 Presentation of Financial Statements;
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- IAS 16 (revised) Property, Plant and Equipment;
- IAS 19 (revised) Employee Benefits;
- IAS 24 Related Party Disclosures;
- IAS 27 Consolidated and Separate Financial Statements;
- IAS 32 Financial Instruments: Disclosure and Presentation;
- IAS 39 Financial Instruments: Recognition and Measurement;

IFRS 3 Business Combinations, IAS 36 (revised) Impairment of Assets and IAS 38 (revised) Intangible Assets and IFRS 5 Non-current Assets Held for Sale and Discontinued Operations were previously adopted for the period beginning 1 January 2004.

Early adoption in 2005

The Group has not applied IFRS and IFRIC Interpretations that have been issued but are not yet effective.

Notes to the consolidated financial statements (continued)

2. Financial risk management

The Group is exposed to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign exchange rates and interest rates. The Group's risk management policies address the unpredictability of the financial markets and seeks to minimize potential adverse effects on the financial performance the Group.

The Group uses derivative financial instruments, such as forward foreign exchange contracts and cross-currency interest rate swaps to hedge certain exposures. It is Group policy to negotiate the terms of hedge derivatives to match the terms of the hedged item and so maximise hedge effectiveness. Speculative trading is not in line with the Group's risk management policies.

The Treasury Department is responsible for financial risk management, following guidelines approved by the Board of Directors. The Treasury Department identifies, evaluates and hedges financial risks in co-operation with the Group's operating units and with Deutsche Telekom AG Treasury. There are policies in place to cover specific areas, such as foreign-exchange risk, interest rate risk, credit risk, liquidity risk, the investment of excess funds and the use of derivative financial instruments.

2.1 Foreign exchange risk

The Group has transactional foreign exchange exposure arising from movements in foreign currencies against its functional currency (SKK), primarily on Euro denominated borrowings.

The Treasury Department manages the Group's foreign exchange exposure by reference to actual and anticipated cash flows denominated in currencies other than its functional currency. The Group uses foreign currency deposits, investments and derivatives to hedge its exposure to exchange rate movements. Hedging transactions are concluded on the basis of foreign currency contracts in place and financial plans for the financial year ahead, updated on a rolling basis.

2.2 Interest rate risk

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

2.3 Credit risk

The Group's credit risk policy defines products, maturities of products and limits for financial counterparties. The Group limits credit exposure to individual financial institutions on the basis of credit ratings assigned to these institutions by reputable rating agencies and these limits are reviewed on a regular basis.

2.4 Liquidity risk

The Group's liquidity risk mitigation principles define the level of cash, cash equivalents, marketable securities and the credit facilities available to Group companies to allow them to meet their obligations on time and in full. The funding of liquidity needs is based on comparisons of income earned on cash and cash equivalents with the cost of financing available on credit facilities, with the objective of holding predetermined minimum amounts of cash, cash equivalents and credit facilities available on demand.

Notes to the consolidated financial statements (continued)

3. Investments in subsidiaries

Details of the Group's subsidiaries are given below:

(All amounts are in millions of Slovak crowns, unless otherwise stated)

Subsidiaries	Activities	Slovak Telekom shareholding	Shareholders' equity	Revenue	Net profit (loss) 2005
T-Mobile Slovensko, a. s.	Wireless phone and data services	100 % (2004: 100 %)	8,154	14,590	2,626
RK Tower, s. r. o.	Broadcasting	100 % (2004: 100 %)	662	183	(27)
TBDS, a. s.	No activity	100 % (2004: nil)	1	-	-
Zoznam, s. r. o.	Internet portal	90 % (2004: nil)	15	64	11
Zoznam Mobile, s. r. o.	Mobile entertainment content provider, mobile software development	100 % (2004: nil)	8	32	8

On 20 April 2005, Slovak Telekom established a new subsidiary, TBDS, a.s..

On 4 May 2005, the Board of Directors of Slovak Telekom approved the dissolution of RK Transmission, s.r.o. and on 31 December 2005 the subsidiary was liquidated and deconsolidated.

Slovak Telekom obtained full control over Zoznam and Zoznam Mobile, acquiring a 90% share in Zoznam's equity and a 100% share in Zoznam Mobile's equity on 31 August 2005.

Notes to the consolidated financial statements (continued)

4. Business combinations

On 31 August 2005, the Company acquired 90% of the shares in Zoznam and became the sole shareholder of Zoznam Mobile. Zoznam is the provider of www.zoznam.sk, the best-known and most widely

utilised internet portal in the Slovak Republic with principal revenue streams from advertising, priority listing and e-commerce. Zoznam Mobile specialises in providing mobile entertainment and the development of mobile phone software.

The fair value of the identifiable assets and liabilities of Zoznam and Zoznam Mobile at the date of acquisition were:

(All amounts are in millions of Slovak crowns, unless otherwise stated)

	Fair value	Acquiree's carrying amount
Property, plant and equipment	7	7
Intangible assets	41	1
Current assets	22	22
Current liabilities	(16)	(16)
Non-current liabilities	(7)	-
Net assets	47	14
Minority interests	(3)	
Net assets acquired	44	

The initial accounting for the acquisition of Zoznam Mobile is determined as provisional, the purchase consideration being dependent on the 2005 results of Zoznam Mobile. Deferred consideration of SKK 25

million is considered the best estimate of the amount to be paid to the former shareholders as at 31 December 2005.

Notes to the consolidated financial statements (continued)

4. Business combinations (continued)

Details of the net assets and goodwill acquired are as follows:

(All amounts are in millions of Slovak crowns, unless otherwise stated)

Purchase consideration	
– Cash paid for Zoznam	90
– Cash paid for Zoznam Mobile	43
– Deferred Contingent consideration for Zoznam Mobile	25
– Related acquisition costs payable Direct costs relating to the acquisitions	5
Total purchase consideration	163
Fair value of net assets acquired in Zoznam Mobile	(28)
Fair value of net assets acquired in Zoznam Mobile	(16)
Total fair value of net assets acquired	(44)
Goodwill arising on acquisition (Note 12)	119

Cash outflows on the acquisitions are as follows:

(All amounts are in millions of Slovak crowns, unless otherwise stated)

Net cash acquired with the subsidiaries	7
Cash paid	(136)
Net cash outflow	(129)

Included in the goodwill of SKK 119 million are certain intangible assets that cannot be individually separated and reliably measured due to their nature and which, therefore, do not meet the recognition criteria of IAS 38.

Slovak Telekom will purchase the outstanding shares of Zoznam in the first quarter of 2007.

From the date of acquisition, Zoznam and Zoznam Mobile have contributed SKK 10 million to the net profit of the Group. If the combination had taken place at the beginning of the year, the profit of the Group would have been SKK 1,998 million and revenue from continuing operations would have been SKK 29,271 million.

Notes to the consolidated financial statements (continued)

5. Revenue

(All amounts are in millions of Slovak crowns, unless otherwise stated)

	2005	2004
Traffic charges	4,699	6,745
Access fees	4,815	4,357
Other voice services	64	94
Total voice services	9,578	11,196
Value added servicesContent revenue	558	432
Data services	1,917	1,950
Terminal equipment	401	306
Fixed network communication	12,454	13,884
Carrier services	968	1,501
Online	587	337
Total fixed network and broadband	14,009	15,722
Mobile services	12,866	-
Mobile equipment and accessories sales	378	-
Other mobile revenue	750	-
Total mobile communication	13,994	-
Broadcasting	795	804
Miscellaneous	406	318
Total other	1,201	1,122
	29,204	16,844

Carrier services in 2004 include revenue of SKK 750 million from T-Mobile.

Notes to the consolidated financial statements (continued)

6. Staff costs

Staff costs of SKK 4,179 million (2004: 3,709 million) include SKK 322 million (2004: SKK 377 million) for contributions to the State social security scheme and SKK 71 million (2004: SKK 460 million) for termination benefits.

7. Other operating costs, net

(All amounts are in millions of Slovak crowns, unless otherwise stated)

	2005	2004
Repairs, maintenance and other services	(1,235)	(759)
Energy	(465)	(380)
Marketing	(888)	(404)
Content services	(497)	(85)
Rentals and leases	(383)	(86)
Commissions	(446)	(109)
Bank, postal and other expenses	(437)	(281)
Consultancy	(206)	(188)
Bad debts expenses	(239)	(4)
Regulatory claims	(856)	(58)
Other costs	(539)	(545)
Own work capitalised	592	882
Total costs	(5,599)	(2,017)

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

Other operating costs in 2004 include SKK 906 million related to T-Mobile.

Notes to the consolidated financial statements (continued)

8. Financial expense

(All amounts are in millions of Slovak crowns, unless otherwise stated)

	2005	2004
Interest arising on borrowings	(322)	(223)
Commitment fees and other financial expense	(111)	(36)
Net foreign exchange losses	(99)	(14)
Net interest expense arising on cross currency interest rate swaps	(12)	(22)
Other	(17)	(4)
	(561)	(299)

9. Financial income

(All amounts are in millions of Slovak crowns, unless otherwise stated)

	2005	2004
Interest income on short term deposits	127	507
Amortisation of fair value adjustment on borrowings	98	-
Change in fair value of financial instruments	64	10
	289	517

10. Taxation

(All amounts are in millions of Slovak crowns, unless otherwise stated)

	2005	2004
Current tax charge	844	180
Deferred tax income	(155)	(117)
Share of tax of joint venture	-	218
	689	281

Notes to the consolidated financial statements (continued)

10. Taxation (continued)

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

(All amounts are in millions of Slovak crowns, unless otherwise stated)

	2004	(Credited)/ charged to income	Acquisition of subsidiaries	2005
Accelerated tax depreciation	3,993	(95)	-	3,898
Unrealised foreign exchange gains	70	(2)	-	68
Allowance for bad debts	(81)	25	-	(56)
Termination benefits	(72)	20	-	(52)
Fair value of derivatives	(99)	17	-	(82)
Tax loss carried forward	(118)	59	-	(59)
Fair value adjustments	2,159	(157)	10	2,012
Other	(36)	(22)	-	(58)
	5,816	(155)	10	5,671

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

(All amounts are in millions of Slovak crowns, unless otherwise stated)

	2005	2004
Net profit before tax	2,678	2,588
Income tax calculated at 19 %	509	492
Effect of income not taxable and expenses not deductible	176	(200)
Tax charge (income) in respect of prior years	4	(11)
Income tax at the effective tax rate of 26 % (2004: 11%)	689	281

Notes to the consolidated financial statements (continued)

11. Property, plant and equipment

(All amounts are in millions of Slovak crowns, unless otherwise stated)

	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	Total
Opening net book value	5,264	17,533	14,493	4,721	3,285	1,914	47,210
Additions	-	-	-	-	-	5,260	5,260
Disposals	(462)	(10)	(8)	(6)	(16)	-	(502)
Transfers	997	897	2,542	(195)	1,145	(5,386)	-
Acquisition of subsidiaries	-	-	-	-	7	-	7
Transfers to and from assets held for sale (Note 17)	6	-	-	-	8	-	14
Depreciation charge	(291)	(887)	(4,296)	(674)	(878)	-	(7,026)
Closing net book value	5,514	17,533	12,731	3,846	3,551	1,788	44,963
At 31 December 2005							
Cost or valuation	7,082	27,381	39,815	11,168	7,235	1,788	94,469
Accumulated depreciation	(1,568)	(9,848)	(27,084)	(7,322)	(3,684)	-	(49,506)
Net book value	5,514	17,533	12,731	3,846	3,551	1,788	44,963
At 1 January 2005							
Cost or valuation	6,421	26,517	40,244	11,803	6,962	1,938	93,885
Accumulated depreciation	(1,157)	(8,984)	(25,751)	(7,082)	(3,677)	(24)	(46,675)
Net book value	5,264	17,533	14,493	4,721	3,285	1,914	47,210

Notes to the consolidated financial statements (continued)

12. Intangible assets

(All amounts are in millions of Slovak crowns, unless otherwise stated)

	Customer contracts and related customer relationships	Brand	Licenses	Goodwill	Software and other	Total
Opening net book value	12,250	142	1,874	2,209	3,241	19,716
Additions	-	-	-	-	1,561	1,561
Disposals	-	-	-	-	(16)	(16)
Acquisition of subsidiaries	11	6	-	119	24	160
Amortisation	(1,076)	(28)	(54)	-	(1,674)	(2,832)
Closing net book value	11,185	120	1,820	2,328	3,136	18,589
At 31 December 2005						
Cost	12,263	148	2,564	2,328	9,741	27,044
Accumulated amortisation	(1,078)	(28)	(744)	-	(6,605)	(8,455)
Net book value	11,185	120	1,820	2,328	3,136	18,589
At 1 January 2005						
Cost	12,250	142	2,564	2,209	8,603	25,768
Accumulated amortisation	-	-	(690)	-	(5,362)	(6,052)
Net book value	12,250	142	1,874	2,209	3,241	19,716

Licences include the right to operate the UMTS cellular network in Slovakia (SKK 1,511 million). T-Mobile announced the commencement of its commercial UMTS service from January 2006.

Notes to the consolidated financial statements (continued)

13. Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to two individual cash-generating units for impairment testing, as follows:

(All amounts are in millions of Slovak crowns, unless otherwise stated)

	2005	2004
T-Mobile	2,209	2,209
Zoznam and Zoznam Mobile	119	-
	2,328	2,209

T-Mobile

The recoverable amount of the T-Mobile cash generating unit has been determined on a value in use calculation using cash flow projections based on financial budgets approved by management covering a ten year period. The discount rate applied to cash flow projections is 7.97% and cash flows beyond the ten year period are extrapolated using a 2.5% growth rate.

Zoznam and Zoznam Mobile

The recoverable amount of the Zoznam and Zoznam Mobile cash generating unit has not been determined because the purchase price was provisionally ascertained (Note 4).

14. Inventories

(All amounts are in millions of Slovak crowns, unless otherwise stated)

	2005	2004
Network communication	173	190
Mobile communication	205	215
Other	20	18
	398	423

Inventories are shown net of an allowance of SKK 105 million (2004: SKK 97 million), of which SKK 70 million (2004: SKK 73 million) relates to the fixed-line network and SKK 25 million (2004: SKK 9 million) to the mobile network.

Notes to the consolidated financial statements (continued)

15. Receivables and prepaid expenses

(All amounts are in millions of Slovak crowns, unless otherwise stated)

	2005	2004
Trade receivables from third parties	3,397	3,186
Trade receivables from related parties (Note 24)	208	51
Prepaid expenses	323	269
Advance payments	66	61
Other current assets	58	25
	4,052	3,592

The Group has recognised an allowance of SKK 1,633 million (2004: SKK 1,641 million) for the impairment of trade receivables.

16. Cash and short-term deposits

(All amounts are in millions of Slovak crowns, unless otherwise stated)

	2005	2004
Cash	2,647	2,978
Short term deposits	1,138	2,684
	3,785	5,662

17. Assets held for sale

(All amounts are in millions of Slovak crowns, unless otherwise stated)

	Land, buildings and related equipment
At 1 January 2005	313
Net transfer to property, plant and equipment (Note 11)	(14)
Assets sold	(253)
At 31 December 2005	46

Notes to the consolidated financial statements (continued)

18. Share capital and reserves

On 1 April 1999 Slovak Telekom became a joint-stock company, with 20,717,920 ordinary shares authorised, issued and fully paid at par value of SKK 1,000 per share. Deutsche Telekom AG acquired 51% of Slovak Telekom through a privatisation agreement, effective 4 August 2000, by which the Company issued 5,309,580 new ordinary shares with a par value of SKK 1,000 per share. The shares were issued at a premium totalling SKK 11,632 million. All the newly issued shares were subscribed and fully paid by Deutsche Telekom AG. The privatisation transaction also involved the purchase by Deutsche Telekom AG of 7,964,445 existing ordinary shares from the Slovak Government.

As of 31 December 2005 Slovak Telekom had authorised and issued 26,027,500 ordinary shares (2004: 26,027,500) with a par value of SKK 1,000 per share. All shares issued were fully subscribed.

The statutory reserve fund is set up in accordance with Slovak law and is not distributable. The reserve is created from retained earnings to cover possible future losses. In 2005, the Group transferred 10% of prior year statutory profits to the reserve fund.

At 18 July 2005 a dividend of SKK 4,300 million was declared, of which SKK 800 million remained unpaid at 31 December 2005.

On the Group's acquisition of a controlling interest in T-Mobile at 31 December 2004, the assets and liabilities of T-Mobile were re-measured to their fair values. The excess of the fair value of the net assets acquired before 31 December 2004 over their value reported within investments in joint ventures of SKK 4,779 million was included in other reserves. This year, as the assets acquired were subject to depreciation, SKK 339 million of the reserve was released.

19. Interest bearing borrowings

(All amounts are in millions of Slovak crowns, unless otherwise stated)

	2005	2004
International financial institution loans	3,417	4,061
Syndicated bank loan	-	3,898
Slovak commercial banks	20	37
Total interest bearing borrowings	3,437	7,996
Less current portion of interest bearing borrowings	(632)	(672)
Non-current portion of interest bearing borrowings	2,805	7,324
Repayments of the non-current portion of interest bearing borrowings fall due as follows:	2005	2004
Between one and two years	635	635
Between two and five years	1,777	5,704
More than five years	393	985
	2,805	7,324

Notes to the consolidated financial statements (continued)

19. Interest bearing borrowings (continued)

The carrying amounts, interest rates and maturity periods of borrowings as at 31 December 2005 were as follows: (All amounts are in millions of Slovak crowns, unless otherwise stated)

	Interest rate p.a.	Maturity	2005	2004
European Investment Bank loan A	6.41	June 2008	142	204
European Investment Bank loan B	6.40	August 2009	145	187
European Investment Bank loan C	5.18	September 2011	2,358	2,820
World Bank loan USD	LIBOR + 0.12	August 2010	218	225
World Bank loan CPU	LIBOR + 0.76	August 2010	554	625
Tatra Banka loan	2.93	June 2007	20	-
Všeobecná úverová banka loan	3m BRIBOR + 0.93	March 2006	-	37
Syndicated bank loan	Variable BRIBOR + 0.6	February 2009	-	1,797
Term tranche of syndicated bank loan	5.65	February 2009	-	2,101
			3,437	7,996

Interest for the World Bank ("WB") loans is based on a WB specific interest rate (variable costs of qualified borrowings) which approximate LIBOR + margin.

Loans from the European Investment Bank („EIB“) and the WB are subject to restrictive covenants which require the Group to achieve minimum ratios in respect of financial leverage, interest cover and debt service based on the IFRS consolidated financial statements. The EIB and WB facilities are guaranteed by the Slovak Government and a Syndicated Bank Guarantee - at 18 September 2002 the Group signed a Syndicated Bank Guarantee for EUR 93 million (SKK 3,828 million) which expires in September 2007.

In 2005 the Group repaid a syndicated bank loan provided by Citibank, N.A. and Všeobecná úverová banka, a.s., originally falling due in 2009. The outstanding loan balance of SKK 2,000 million was repaid, together with early payment fees of SKK 57 million.

At 31 December 2005, the Group has total undrawn loan facilities available of SKK 2,900 million (2004: SKK 700 million). Of this amount, SKK 700 million is available for the period to 31 July 2006, the remainder being available to 28 December 2007.

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

	2005	2004
Carrying amount	3,437	7,996
Fair value	3,677	8,260

All interest bearing borrowings denominated in currencies other than the functional currency are hedged to SKK.

The average effective cost of borrowing (total interest payable and other charges) at 31 December 2005 is 5.14 % (2004: 5.22 %).

The notes on pages 74 to 103 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements (continued)

20. Trade and other payables and deferred income

(All amounts are in millions of Slovak crowns, unless otherwise stated)

	2005	2004
Trade and other payables and deferred income due within one year:		
Trade payables to third parties	3,548	4,205
Payables to related parties	224	124
Amounts due to employees	652	513
Deferred income	1,345	1,210
Fair value of derivative instruments (Note 23)	14	55
Dividends payable	800	-
Other	439	660
	7,022	6,767
Trade and other payables and deferred income due after one year:		
Fair value of derivative instruments	405	436
Deferred installment and activation fees	462	423
Other	20	22
	887	881

Notes to the consolidated financial statements (continued)

21. Provisions

(All amounts are in millions of Slovak crowns, unless otherwise stated)

	Legal and regulatory claims	Termination benefits	Asset retirement obligations	Loyalty programmes	Other	Total
At 1 January 2005	83	379	132	63	81	738
Arising during the year	943	180	18	50	116	1,307
Accretion	-	-	11	-	-	11
Reversals	(81)	(137)	-	-	-	(218)
Utilised	(25)	(150)	-	(29)	(142)	(346)
At 31 December 2005	920	272	161	84	55	1,492
Non-current	-	-	161	-	14	175
Current	920	272	-	84	41	1,317
	920	272	161	84	55	1,492

Legal and regulatory claims

A provision of SKK 885 million has been recognized in respect of a penalty imposed as a result of regulatory proceedings taken against Slovak Telekom by the Anti-Monopoly Office of the Slovak Republic. On 16 January 2006, Slovak Telekom obtained the enforceable second stage decision, by which the company was required to make payment of SKK 885 million at 15 February 2006. Slovak Telekom appealed against the second stage decision at the Bratislava Regional Court, obtaining a preliminary injunction that suspended the enforceability of the decision on 8 February 2006, and continues to explore all legal options available.

The provision includes further amounts in respect of other legal and regulatory claims brought against the Group. In the opinion of the Group's management, 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 2005.

Termination benefits

The re-ordering of the Group's operations will result in the loss of 1,160 jobs in 2006. An agreement has been reached with local trade union representatives based on a detailed formal plan that specifies the

number of staff involved and their locations and functions. The amount of compensation to be paid to staff for terminating their employment was calculated by reference to the specific conditions included in the agreement with the trade unions. The termination payments are expected to be paid within twelve months of the balance sheet date and are recognised in full in the current period.

Asset retirement obligations

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

Loyalty programmes

The provision for loyalty programmes primarily covers the cost of equipment, accessories and gifts provided in exchange for credits awarded to participants of T-Mobile's Club loyalty programme. The provision has been recognized based on previous experience of the use of these credits by loyalty programme participants.

Notes to the consolidated financial statements (continued)

22. Commitments

The Group had the following capital commitments at 31 December:

(All amounts are in millions of Slovak crowns, unless otherwise stated)

	2005	2004
Capital expenditures contracted for but not completed	1,765	1,029

The commitments under contractual arrangements principally relate to the fixed-line and mobile telecommunications networks, with the majority of payments due within one year, and include a binding commitment related to the purchase of UMTS technology and equipment.

The Group has commitments under operating leases and hire purchase contracts with terms ranging from one to ten years relating primarily to office and retail space and motor vehicles. The aggregate future minimum lease payments under non-cancellable operating leases and hire purchase contracts can be analysed as follows:

(All amounts are in millions of Slovak crowns, unless otherwise stated)

	2005	2004
Operating commitments due within one year	331	205
Operating commitments due between one and five years	516	336
Operating commitments due after five years	251	442
	1,098	983

Notes to the consolidated financial statements (continued)

23. Derivative financial instruments

Movements in derivatives during the year ended 31 December 2005 are set out below:

(All amounts are in millions of Slovak crowns, unless otherwise stated)

	Cross currency swaps	Currency forwards	Total
Fair value at 1 January 2005	436	55	491
Change in fair value charged to income statement	(23)	(41)	(64)
Change in fair value charged to equity	(8)	-	(8)
Net movements during the year	(31)	(41)	(72)
Fair value at 31 December 2005	405	14	419

The Group has entered into cross-currency swaps and forward foreign exchange contracts to manage its exposure to fluctuations in foreign exchange rates related to the repayment of foreign currency borrowings and future planned foreign currency denominated expenditures.

At 31 December 2005 the Group was party to the following cross-currency swap contracts for which hedge accounting was not applied:

(All amounts are in millions of Slovak crowns, unless otherwise stated)

	Outstanding principal payable	Outstanding principal receivable	Interest payable	Interest receivable	Maturity
CPU/USD FX swap	USD 17,926,449	CPU 1,281	-	-	August 2010
USD/EUR IRS	EUR 28,987,814	USD 24,741,099	2.38 %	4.13 %	August 2010
EUR/SKK IRS	SKK 1,131,394,389	EUR 28,987,814	3.07 %	2.38 %	August 2010

The currency pool unit („CPU“) represents a currency basket comprising 5 currencies. The interest rates quoted are floating and applicable until the next payment date.

Notes to the consolidated financial statements (continued)

23. Derivative financial instruments (continued)

At 31 December 2005, cross-currency swap contracts related to EIB borrowings were designated as hedges of future cash flows. The swaps are to be used to hedge the foreign currency risk of principal and interest payments and the terms of these contracts are as follows:

(All amounts are in millions of Slovak crowns, unless otherwise stated)

	Outstanding principal payable	Outstanding principal receivable	Interest payable	Interest receivable	Maturity
EUR/SKK IRS	SKK 145,951,274	EUR 3 751 091	6.62 %	6.41 %	June 2008
EUR/SKK IRS	SKK 149,610,549	EUR 3 845 140	6.56 %	6.40 %	August 2009
EUR/SKK IRS	SKK 1,442,953,846	EUR 36 923 077	5.32 %	5.18 %	September 2011
EUR/SKK IRS	SKK 991,171,661	EUR 25 369 124	5.35 %	5.18 %	September 2011

The cross-currency swap contracts have been negotiated to match the terms of the EIB borrowings. The hedge of future cash flows was assessed to be highly effective and an unrealised gain of SKK 8 million, net of related deferred tax of SKK 2 million, is included in equity.

At 31 December 2005 the Group was party to the following forward foreign exchange contracts for which hedge accounting was not applied:

(All amounts are in millions of Slovak crowns, unless otherwise stated)

	Payable	Receivable	Maturity
SKK/USD forward	SKK 7,617,120	USD 240,000	January 2006
EUR/SKK forward	EUR 2,430,000	SKK 92,011,950	January 2006

Notes to the consolidated financial statements (continued)

24. Related party transactions

The Group conducts business with its ultimate parent, Deutsche Telekom AG and its subsidiaries, associates and joint ventures, primarily for calls and other traffic which access their networks and also for management, consultancy and other services. At 31 December 2005 payables due to Deutsche Telekom, as presented in the following table, include dividends payable of SKK 408 million. During 2005, the Group received a reimbursement of SKK 399 million from Deutsche Telekom for T-Mobile re-branding costs and this is shown within revenues in the table below.

The Group provides telecommunications services to the MTPT, which has significant influence over the Group. In addition, at 20 December 2005, Slovak Telekom sold its headquarters building in Bratislava to the MTPT for SKK 390 million and this is shown within revenues in the table below, while dividends payable to the MTPT are shown in payables.

(All amounts are in millions of Slovak crowns, unless otherwise stated)

	Receivables		Payables		Revenues		Expenses	
	2005	2004	2005	2004	2005	2004	2005	2004
Deutsche Telekom AG	26	-	504	63	399	-	144	232
T-Systems Group	107	19	57	23	429	223	161	167
T-Mobile Group	34	25	43	-	234	-	188	-
T-Mobile Slovensko	-	-	-	-	-	750	-	906
MTPT	-	-	272	-	395	5	-	-
Other	41	7	28	38	93	47	99	212
	208	51	904	124	1,550	1,025	592	1,517

During 2005 the key management personnel of the Group received compensation of SKK 180 million (2004: SKK 164 million).

Notes to the consolidated financial statements (continued)

25. Contingencies

Slovak Telekom has been charged by the Anti-Monopoly Office with abusing its dominant market position in tendering for a complex telecommunications project. The Anti-Monopoly Office imposed a penalty of SKK 80 million when issuing its first stage decision. Slovak Telekom has appealed this decision and management believe that it is possible rather than probable that the second stage decision will result in the obligation to pay the penalty; accordingly, no provision for any liability that might result from these proceedings has been made in these financial statements.

The Group is involved in other legal and regulatory proceedings in the normal course of business. Management is confident that the Group will suffer no material loss as a result of such proceedings in excess of the provisions already recognised in the consolidated financial statements (Note 21).

26. Service concession arrangements

The Group is involved in the following service concession arrangements:

Slovak Telekom:

The Company operates electronic communications networks and provides electronic communications services on the basis of its telecommunications licence no. 7961/2000, amended by decision no. 750/12/2004, dated 20 September 2004. The numbers and frequencies allocated in such licences are deemed an individual authorisation pursuant to Sections 31 and 32 of the Act on Electronic Communications („AEC“) until their validity expires.

Under the terms of its licence, the Company is obliged to meet universal service obligations which are slightly different in scope than as defined in the AEC.

In compliance with preliminary provision Sec. 76 Ss. 10 of the AEC, in May 2004 the Company submitted a motion to cancel its obligation to provide public telegraph and public telex services. In November 2005 the Company received the second stage decision of the Telecommunications Office which confirmed that the Company was obliged to provide public telegraph services until 31 December 2006 and public telex services until 31 March 2006.

T-Mobile:

In November 1990, T-Mobile was awarded a 20-year exclusive licence to operate an analogue NMT 450 MHz network in the region now known as the Slovak Republic. T-Mobile also received a licence to construct and operate a public switched packet data network. T-Mobile launched NMT 450 mobile telecommunications services commercially in September 1991 and began to provide managed data network services in November 1991. In August 1996, T-Mobile received one of two licences granted by the MTPT to build and operate a GSM 900 MHz network and launched this service in February 1997. In July 1999, T-Mobile's original GSM 900 MHz licence was amended and T-Mobile received one of two licences granted by the MTPT to build and operate a GSM 1800 MHz network.

Notes to the consolidated financial statements (continued)

26. Service concession arrangements (continued)

In July 2000, the Telecommunications Office consolidated T-Mobile's licences into one general licence. This is the licence under which T-Mobile currently operates and it is valid up to 2011. Prior to the expiration of this licence, T-Mobile has the option to renew the licence for up to an additional 10 years and may be required to pay certain fees for the renewal of the licence.

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

With effect from 16 July 2002, T-Mobile was awarded the licence for the implementation and operation of a public mobile telecommunication network based on the UMTS standard. The UMTS licence also provides for the control of related radio frequencies by T-Mobile. On 30 September 2003, T-Mobile was granted full control of the frequencies under the terms of the UMTS licence and is obliged to launch commercial UMTS services within 30 months of that date. T-Mobile announced the commencement of commercial UMTS services in January 2006. The UMTS licence is valid to 2022 when T-Mobile has the option to request its prolongation.

27. Post balance sheet events

Re-branding to Slovak Telekom, a. s. and introduction of the T-Com business brand

In 2005, the Board of Directors of the Company approved the change of its business name, corporate brand and the launch of a new business brand, taking effects as of 8 March 2006. By the change of business name to Slovak Telekom, a.s. and by the launch of the new business brand T-Com the Company identifies itself with one of the largest global telecommunications operators, Deutsche Telekom AG.

Deferred purchase consideration related to the acquisition of Zoznam Mobile

The purchase consideration made in respect of the acquisition of Zoznam Mobile (Note 4) was partially dependent on the achievement of specific performance targets based on the audited financial statements for the year ended 31 December 2005. The deferred consideration was determined to be SKK 25 million by reference to these financial statements, issued at 27 January 2006.

Report of the Auditors



Ernst & Young Slovakia, spol. s r.o.
Zašková 5-8
P.O.Box 19
810 00 Bratislava
Slovakian republic

tel: +421 2 5922 9111
fax: +421 2 5922 9222
www.ey.com

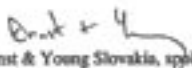
Independent Auditor's Report to the Shareholders of Slovak Telekom, a.s.

We have audited the accompanying consolidated financial statements of Slovak Telekom, a.s. and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2005 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of T-Mobile Slovensko, a.s., which statements reflect total assets and total revenues of 20 percent and 48 percent of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the report of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of the Group at 31 December 2005 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Bratislava,
23 March 2006


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

Consolidated Financial Statements

Separate Financial Statements

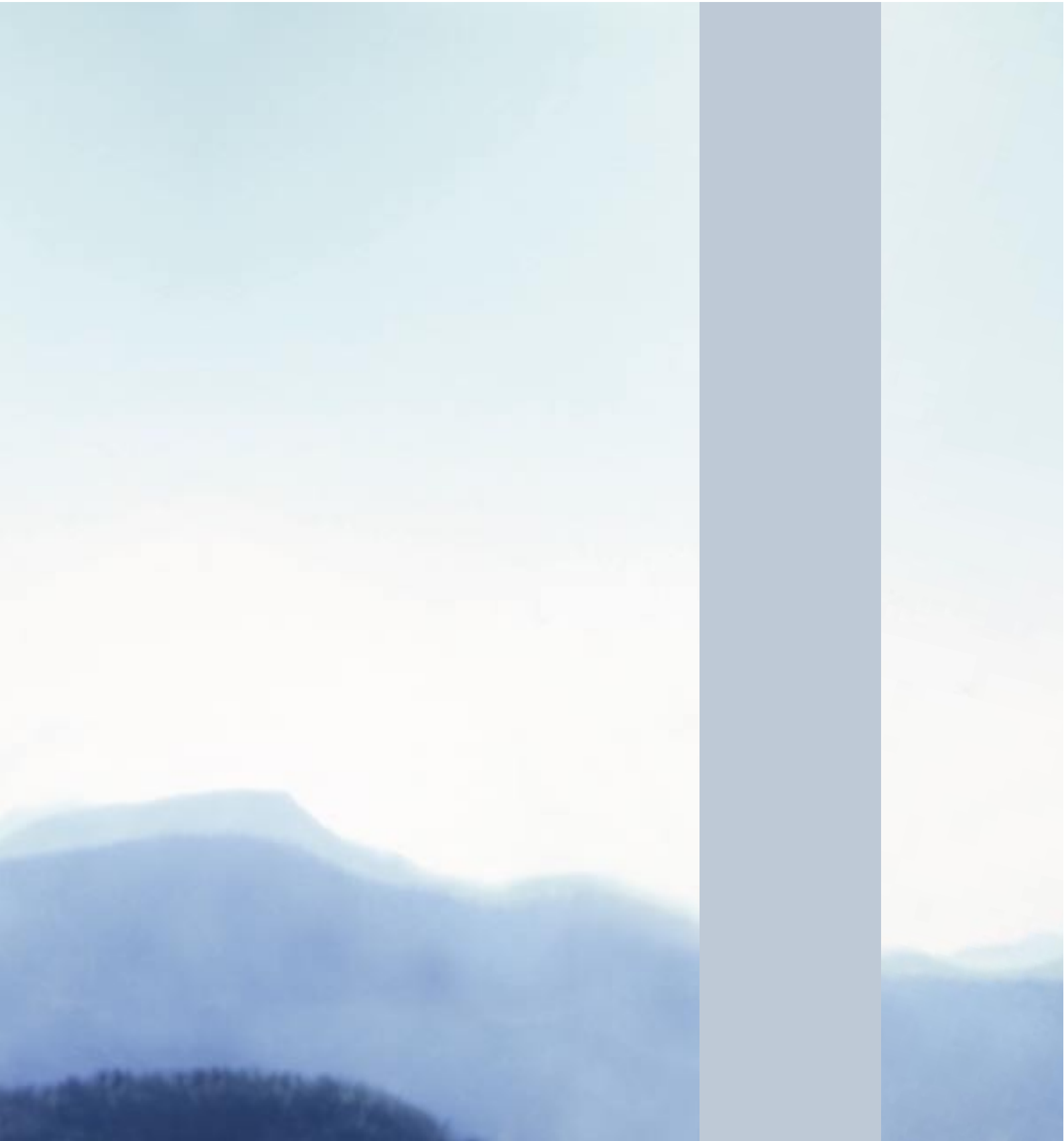
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Financial results of Slovak Telekom, a. s.



■ **Separate Financial Statements**



Slovak Telekom, a. s.
Auditor's Report and
Financial statements
year ended
31 December 2005



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Independent Auditor's Report



Ernst & Young Slovakia, spol. s r.o.
 Zochova 5 - 3
 P.O. Box 15
 818 00 Bratislava
 Slovenská republika

Tel.: +421 2 2012 9111
 Fax: +421 2 2012 9111
 www.ey.com


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

We have audited the accompanying financial statements of Slovak Telekom, a.s. for the year ended 31 December 2005, which comprise the balance sheet prepared as at 31 December 2005, the related profit and loss account for the year then ended and the notes. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion the accompanying financial statements present fairly, in all material respects, the financial position of the Company at 31 December 2005 and of the results of its operations for the year then ended in accordance with the Slovak Act on Accounting.

Bratislava,
23 March 2006


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


 Ing. Jana Švarcová
 SKAU Licence No. 932

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT

Ernst & Young Slovakia, spol. s r.o., IČO: 31 049 962, zapsaná v Obchodnom registri Okresného súdu Bratislava 1, oddiel: Sro, vložka číslo: 27094/B a v zozname audítora určenom Slovenskou komorou audítora podľa Z. 257

Balance Sheet

Balance sheet Úč POC 1-01

BALANCE SHEET

at 31.12. 20.06 (Sk thousands)

for the period from month 01 year 2005 until month 12 year 2005

Type of delivery
 - ordinary
 - extraordinary
 - preliminary

Type of delivery
 - prepared
 - approved

ING
 35763489

*) marked with

Accounting entity name :
 S l o v a k T e l e k o m

Legal form of the entity :
 a . s .

Residence of the entity, Street and No.
 N á m . S l o b o d y 6

ZIP Town
 8 1 7 6 2 B r a t i s l a v a

Phone area code Phone number Fax number
 0 2 5 8 8 1 1 1 2 0 5 2 4 9 4 2 2 7

e-mail
 m i r o s l a v . b i e l c i k @ a t . s k

Prepared on: 23.3.2006	Written record of member of entity's authority (only in legal entity)	Written record of member of entity responsible for preparation of financial statements:	Written record of member of entity responsible for accounting:
Approved on: 28.4.2006	Ing. Miroslav Majoroš Szabolcs Csábori-Szabó	Ing. Miroslav Bielik	Ing. Mária Rokusová

Balance Sheet

		Line	Gross value	Adjustment	Net value	Prior year
			Sk €000	Sk €000	Sk €000	Sk €000
	Total assets I. 02+03+32+62	001	102,629,483	44,636,274	57,993,209	60,466,456
A.	Receivables for subscribed share capital (353)	002				
B.	Non-current assets I. 004+013+023	003	93,834,229	43,862,540	49,971,689	52,899,108
B.I.	Intangible fixed assets total (I. 005 to 012)	004	4,043,251	2,510,161	1,533,090	1,670,818
	1 Startup (Incorporation) expenses (011) -/071, 091A/	005				
	2 Research and development (012) -/072, 091A/	006				
	3 Software (013) -/073, 091A/	007	3,917,309	2,470,808	1,446,501	1,429,504
	4 Licences, know-how, copyright and other valuable rights (014) -/074, 091A/	008	11,694	5,374	6,320	3,910
	5 Goodwill (015) -/075, 091A/	009				
	6 Other intangible assets (019, 01x) -/079, 07x, 091A/	010	73,045	33,979	39,066	36,502
	7 Intangible fixed assets not yet in use (041) -093	011	41,203		41,203	200,902
	8 Advance payments on account of intangible fixed assets (051) -095A	012				
B.II.	Tangible fixed assets total (I.014 to 022)	013	77,808,061	41,338,381	36,469,680	39,423,365
	1 Land (031) -092A	014	333,276		333,276	442,327
	2 Structures (021) -/081, 092A/	015	33,100,623	11,858,868	21,241,755	21,853,977
	3 Individual tangible fixed assets and complexes of tangible fixed assets (022) -/082, 092A/	016	43,388,379	29,450,715	13,937,664	15,640,009
	4 Permanent crop stands (025) -/085, 092A/	017				
	5 Livestock and draught animals (026) -/086, 092A/	018				
	6 Other tangible fixed assets (029, 02x, 032) -/089, 08x, 092A/	019	286,260	28,798	257,462	240,234
	7 Capital work in progress (042) -094	020	663,873		663,873	1,134,613
	8 Advance payments on account of tangible fixed assets (052) -095A	021	35,650		35,650	112,205
	9 Provision for acquired assets (+/-097) +/-098	022				

Balance Sheet

		Line	Gross value	Adjustment	Net value	Prior year	
			Sk ₺000	Sk ₺000	Sk ₺000	Sk ₺000	
B.III.		Financial investments total (I.024 to 031)	023	11,982,917	13,998	11,968,919	11,804,925
	1	Investments in subsidiaries (061) -096A	024	11,898,245		11,898,245	11,804,925
	2	Investments in associates (062) -096A	025				
	3	Other equity investments (063) -096A	026	13,998	13,998	0	
	4	Loans to accounting units in consolidation group (066) -096A	027				
	5	Other financial investments (067A, 069, 06xA) -096A	028				
	6	Loans with maturity up to one year (066A, 067A, 06xA) -096A	029				
	7	Financial investments not yet in use (043) -096A	030	70,674		70,674	
	8	Advance payments on account of financial investments (053) -095A	031				
C.		Current assets I. 033+041+048+056	032	8,645,722	773,734	7,871,988	7,509,923
C.I.		Inventory total (I. 034 to 040)	033	272,041	80,034	192,007	207,768
	1	Raw material (112,119,11x) -/191,19x/	034	171,194	72,849	98,345	144,781
	2	Work in progress and semifinished goods (121,122,12x) -/192,193,19x/	035	967		967	828
	3	Construction type contracts with maturity over one year 12x-192A	036				
	4	Finished goods (123) -194	037				
	5	Livestock (124) -195	038				
	6	Merchandise (132, 13x, 139) -/196,19x/	039	97,769	7,185	90,584	62,159
	7	Advance payments on account of inventories (314A) -391A	040	2,111		2,111	

Balance Sheet

		Line	Gross value	Adjustment	Net value	Prior year	
			Sk €000	Sk €000	Sk €000	Sk €000	
C.II.		Non-current receivables total (l. 042 to 047)	041				
	1	Trade receivables (311A, 312A, 313A, 314A, 315A, 31xA) -391A	042				
	2	Receivables from enterprises with controlling interest (351A) -391A	043				
	3	Receivables from enterprises in consolidating group (351A) -391A	044				
	4	Receivables from partners, associates and consortium members (354A, 355A, 358A, 35XA)	045				
	5	Other receivables (335A, 33xA, 371A, 373A, 374A, 375A, 376A, 378A) -391A	046				
	6	Deferred tax receivable (481A)	047				
C.III.		Current receivables total (l. 049 to 055)	048	5,266,832	693,657	4,573,175	2,567,469
	1	Trade receivables (311A, 312A, 313A, 314A, 315A, 31xA) -391A	049	2,785,348	692,916	2,092,432	2,109,849
	2	Receivables from enterprises with controlling interest (351A) -391A	050				
	3	Other receivables within consolidation group (351A) -391A	051	700,000		700,000	
	4	Receivables from partners, associates and consortium members (354A, 355A, 358A, 35XA, 398A) -391A	052			0	150
	5	Social security (336A) -391A	053				
	6	Tax receivables (341, 342, 343, 345) -391A	054				389,686
	7	Other receivables (335A, 33xA, 371A, 373A, 374A, 375A, 376A, 378A) -391A	055	1,781,484	741	1,780,743	67,784

Balance Sheet

		Line	Gross value	Adjustment	Net value	Prior year	
			Sk 000	Sk 000	Sk 000	Sk 000	
C.IV.		Cash and cash equivalents - total (l. 057 to 061)	056	3,106,849	43	3,106,806	4,734,686
	1	Cash in hand (211, 213, 21x)	057	602		602	477
	2	Bank accounts (221A, 22xA, +/-261)	058	1,968,557		1,968,557	2,026,092
	3	Term deposits over one year 22xA	059			0	24,777
	4	Short term financial assets (251, 253, 256, 257, 25x) -/291, 29x/	060	1,137,690	43	1,137,647	2,683,340
	5	Acquired cash and cash equivalents (259) - 291	061				
D.		Accruals and prepayments - total (l. 063 to 064)	062	149,532		149,532	57,425
	1	Prepaid expenses (381, 382)	063	113,798		113,798	57,032
	2	Accrued income (385)	064	35,734		35,734	393
		Control total - l. 001 to 064	888	410,368,400	178,545,096	231,823,304	241,808,399

Balance Sheet

		Line	Current	Prior
			Skd000	Sk d000
B.II.	Non-current liabilities total (l. 092 to 101)	091	3,454,044	3,534,015
1	Non-current trade liabilities (479A)	092		
2	Non-current uninvoiced supplies (476A)	093		
3	Liabilities to enterprises with controlling interest (471A)	094		
4	Other non-current liabilities within consolidation group (471A)	095		
5	Non-current advance payments received (475A)	096		
6	Non-current bills of exchange payable (478A)	097		
7	Bonds and debentures issued (473A /-/255A)	098		
8	Social fund payable (472)	099	14,862	12,934
9	Other non-current liabilities (474A, 479A, 47xA, 372A, 373A,377A)	100	412,731	471,591
10	Deferred tax liability (481A)	101	3,026,451	3,049,490
B.III.	Current liabilities total (l. 103 to 111)	102	3,634,073	3,585,586
1	Trade liabilities (321, 322, 324, 325, 32x, 475A, 478A, 479A, 47xA)	103	1,542,758	2,033,175
2	Current uninvoiced supplies (326, 476A)	104	788,345	1,062,933
3	Non-current liabilities to enterprises with controlling interest (361, 471A)	105		
4	Other liabilities within consolidation Group (361A, 36xA, 471A, 47xA)	106		
5	Liabilities to partners, associates and consortium members (364, 365, 366, 367, 368, 398A, 478A, 479A)	107	12,653	12,653
6	Liabilities to employees (331, 333, 33x, 479A)	108	173,806	161,026
7	Social security insurance payable (336A, 479A)	109	75,669	79,637
8	Tax liabilities and subsidies payable (341, 342, 343, 345, 346, 347, 34x)	110	239,929	235,235
9	Other liabilities (372A, 373A, 377A, 379A, 474A, 479A, 47x)	111	800,913	927
B.IV.	Bank loans and borrowings total (l. 113 to 115)	112	3,416,751	4,060,751
1	Non-current bank loans (461A,46xA)	113	2,798,042	3,443,810
2	Current bank loans (221A, 231, 232, 23x, 461A, 46xA)	114	618,709	616,941
3	Other current borrowings (241, 249, 24x, 473A, /-/255A)	115		

Balance Sheet

		Line	Current	Prior
			Sk 000	Sk 000
C.	Accruals and deferred income total (l. 117+118)	116	734,643	685,347
	1 Accruals (383)	117	55,540	63,474
	2 Deferred income (384)	118	679,103	621,873
	Control total total (l. 065 to 118)	999	229,611,871	240,791,206

Income Statement

		Line	Current	Prior
			Sk€000	Sk€000
I	Sales of merchandise (604)	01	301,038	152,521
A	Costs of merchandise sold (504)	02	339,905	163,707
	+ Gross margin I.01-02	03	(38,867)	(11,186)
II	Production I.05+06+07	04	16,334,712	17,617,587
	1 Sales of own products and services (601,602)	05	15,792,373	16,736,770
	2 Change in inventory of finished goods and work in progress (+/- acc. group 61)	06	139	554
	3 Own work capitalised (acc. group 62)	07	542,200	880,263
B	Production costs I.09+10	08	5,513,701	6,290,207
	1 Raw material and energy used in production (501 to 503)	09	1,082,121	1,382,002
	2 Services (acc. group 51)	10	4,431,580	4,908,205
	+ Value added I.03+04-08	11	10,782,144	11,316,194
C	Staff costs total I. 13 to 16	12	3,187,475	3,315,634
	1 Wages and salaries (521,522)	13	2,222,609	2,289,922
	2 Remuneration of members of the board of companies and co-operatives (523)	14	7,440	5,330
	3 Social security costs (524,525,526)	15	688,846	711,322
	4 Employee welfare costs (527,528)	16	268,580	309,060
D	Indirect taxes and fees (acc. group 53)	17	56,573	53,062
E	Depreciation of tangible and intangible fixed assets (551)	18	6,875,701	6,237,106
III	Revenue from sale of fixed assets and raw material (641,642)	19	1,062,779	147,688
F	Carrying value of fixed assets and raw material sold (541,542)	20	989,721	103,968
IV	Release of provisions for liabilities and charges and accrued operating revenue (652,654,655)	21	704,542	913,933
G	Creation of provisions for liabilities and charges and accrued operating expenses (552,554,555)	22	1,466,446	1,075,391
V	Release of provisions (operating) (657,658,659)	23	1,345,660	732,951
H	Creation of provisions (operating) (557,558,559)	24	461,762	683,486
VI	Other operating revenues (644,645,646,648,649)	25	88,379	39,342
I	Other operating expenses (543 to 546,548,549)	26	467,762	200,455

Income Statement

		Line	Current	Prior
			Sk@00	Sk@00
VII		Reclassification of operating revenues $-(697)$	27	
J		Reclassification of operating costs $-(597)$	28	
	+	Operating profit I.11-12-17-18+19-20+21-22+23-24+25-26+(-27)-(-28)	29	478,064
VIII		Revenue from sale of securities (661)	30	39,744
K		Book value of securities and shares sold (561)	31	39,840
IX		Income from financial investments I.33+34+35	32	1,641,084
	1	Income from investments in subsidiaries and associates (665A)	33	
	2	Income from other equity investments (665A)	34	1,641,084
	3	Income from other investments (665A)	35	
X		Income from short term financial assets (666)	36	41,300
L		Costs of short term financial assets (566)	37	11
XI		Release of financial provisions for liabilities and charges (664,667)	38	
M		Revaluation costs of securities and revenue from operations with derivatives (564,567)	39	
XII		Interest income (662)	40	136,742
N		Interest expense (562)	41	278,554
XIII		Exchange rate gains (663)	42	350,425
O		Exchange rate losses (563)	43	405,752
XIV		Other financial revenue (668)	44	1,866
P		Other financial expenses (565,568,569)	45	115,529
XV		Release of financial provisions for liabilities and charges (674)	46	
Q		Creation of financial provisions for liabilities and charges (574)	47	
XVI		Release of provisions (financial) (679)	48	
R		Creation of provision (financial) (579)	49	2
XVII		Reclassification of financial revenue $-(698)$	50	
S		Reclassification of financial expenses $-(598)$	51	
	+	Profit (loss) from financial activities I.30-31+32+36-37+38-39+40-41+42-43+44-45+46-47+48-49+(-50)-(-51)	52	1,371,571
				(1,006,374)

Income Statement

		Line	Current	Prior
			Sk000	Sk000
T	Tax on income from ordinary activities I.54+55	53	224,149	83,460
	1 - payable (591,595)	54	260,068	179,675
	2 - deferred (+/-592)	55	(35,919)	(96,215)
	** Net profit from ordinary activities I.29+52-53	56	1,625,486	391,172
XVIII	Extraordinary revenues (acc. group 68)	57	841	959
U	Extraordinary expenses (acc. group 58)	58	5	2,860
V	Tax on income from extraordinary activities I.60+61	59		
	1 - payable (593)	60		
	2 - deferred (+/-594)	61		
	* Extraordinary profit/(loss) I.57-58-59	62	836	(1,901)
Z	Profit (loss) share transferred to owners' account (+/-596)	63		
	*** Net profit/(loss) for the period (+/-) I.56+62-63	64	1,626,322	389,271
	Control total (I.1 to 64)	99	85,139,091	80,602,845

Consolidated Financial Statements

Separate Financial Statements

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Notes to the Financial Statements for the year ended 31 December 2005

A. Information about the accounting entity

1. General Information

Business name and registered office:

Slovak Telekom, a. s.
Námestie Slobody č. 6
817 62 Bratislava

Date of foundation: 1 April 1999

Incorporated in the Commercial Register:

District Court Bratislava I., File No.2081/B

Date of registration: 1 April 1999

Identification number (IČO): 35 763 469

2. Principal activities of the Company according to the extract from the Commercial Register are as follows:

- the transmission, broadcasting and reception of radio, television and other communication signals for designated operators and for licensed operators;
- the provisioning of telecommunications and radio communications services against payment/transmission, processing, creation and mediation of information for the needs of both natural persons and legal entities: voice, graphics, picture messages, data, information, and multimedia telecommunications services and their combinations;
- the establishment, operation, construction, maintenance and servicing of telecommunications equipment, networks and information technologies owned by other entities within the scope of concluded contracts;
- the execution of activities related to the preparation and fulfilment of tasks in extraordinary situations and in an emergency defence of the State upon the orders of the competent authorities;
- the creation and updating of an information database for the needs of the information systems of the telecommunications industry;
- the issuance, distribution and sale of lists of subscribers of individual telecommunications services (in various media);
- the design, installation, repair and execution of checks on electronic fire alarm devices;
- network optimisation planning and forecasting;

Notes to the Financial Statements for the year ended 31 December 2005

- the execution of engineering works, the construction of telecommunications lines and equipment;
- the execution of the function of a custodian company concerning state material reserves and state mobilisation reserves within the scope of concluded contracts;
- the transmission of all kinds of signals and information via the public telecommunications network (hereinafter only PTN) with the exception of those parts exclusively reserved for other operators, as well as over leased sections of non-public networks built outside the PTN regardless of the width of the transmitting band, transmission rate and transmission media;
- the planning, design, development, construction, installation, operation, maintenance and repair of PTN components within the territory of the Slovak Republic, and their modernisation;
- the sale, lease and connection of telecommunications devices and networks to PTN terminal points;
- the provision of linkage of the selected section of the PTN to the international telecommunications network, the conclusion of international agreements in the area of telecommunications related to the scope of ST activities, the proposal of prices and tariffs for national and international services including their billing and settlement.

3. Average number of employees:

5,867

of which

Managers: **151**

Regular financial statements have been compiled in accordance with the requirements of Section 17, Paragraph 6 of Act of the National Council of the Slovak Republic No. 431/2002 Coll. on Accounting, for the period from 1 January 2005 to 31 December 2005.

The General Assembly of the Company approved the financial statements as at 31 December 2004 and the proposed distribution of the profit for the period ended 31 December 2005 on 22 April 2005.

Notes to the Financial Statements for the year ended 31 December 2005

B. Information about the bodies of the accounting entity

The structure of the **Board of Directors** as at 31 December 2005 is as follows:

Name	Function	Note
Ing. Miroslav Majoroš	Member Chairman	To 5 June 2005 From 6 June 2005
Ing. Štefan Bugár	Vice-Chairman	
Horst A. Hermann	Chairman Member	To 5 June 2005 From 6 June 2005
Dr. Ralph Rentschler	Member	
Szabolcs Gáborjáni-Szabó	Member	From 22 April 05
Ing. Gabriela Vavříková	Member	
Ing. Peter Stropko	Member	
Dr. Mark Peter Montagne von Lillienkiold	Member	To 19 April 2005

Notes to the Financial Statements for the year ended 31 December 2005

The structure of the **Supervisory Board** as at 31 December 2005 is as follows:

Name	Function	Note
Ing. Martin Velecký	Chairman of the Supervisory Board	
Dr. Frank-Reinhard Bartsch	Vice-Chairman	
Dr. Albert Matheis	Member of the Supervisory Board	
Dr. Hans-Peter Engel	Member of the Supervisory Board	
JUDr. Eleonóra Valentová	Member of the Supervisory Board	
Ing. Ľudovít Hintoš	Member of the Supervisory Board	
Ing. Pavel Kyman	Member of the Supervisory Board	
Ing. Jozef Opát	Member of the Supervisory Board	
Ing. Alojz Glinský	Member of the Supervisory Board	

President of the Company

Ing. Miroslav Majoroš

Notes to the Financial Statements for the year ended 31 December 2005

C. Information about the shareholders of the accounting entity

Name	Share in registered capital		
	Share	%	Voting rights
Deutsche, Telekom	13,274,025	51 %	51 %
National Property Fund	3,904,125	15 %	15 %
Ministry of Transportation, Posts and Telecommunications	8,849,350	34 %	34 %
Total	26,027,500	100 %	100 %

Notes to the Financial Statements for the year ended 31 December 2005

D. Information on consolidated group

The Company constitutes a part of Deutsche Telekom Group, based in Bonn. Deutsche Telekom prepares the consolidated financial statements which can be obtained at the following address: Deutsche Telekom, Friedrich-Ebert-Allee 140, 531 05 Bonn.

Notes to the Financial Statements for the year ended 31 December 2005

E. Information about accounting principles and accounting methods

1. Basis of preparation

The financial statements have been prepared in accordance with the Slovak Act on Accounting and relevant regulations, on a going concern basis.

The Company applied accounting policies and methods consistently.

All numbers in the financial statements are in thousands of Slovak crowns (SKK), unless otherwise stated.

2. Method of valuation of individual items

a. Non-current tangible and intangible assets

Acquired non-current assets are stated at the acquisition cost which incorporates the purchase price and directly attributable costs (transport, insurance, customs duties, assembly, etc.). Since 1 January 2003, the acquisition cost does not include interest from borrowed funds and unrealised foreign exchange differences which occurred up to the moment that the non-current assets were put into use.

Internally generated non-current assets are stated at the Company's own costs. The Company's own costs include all direct and indirect costs of construction and the technical improvement of software applications.

Non-current tangible and intangible assets are depreciated over their estimated useful life and estimated wear and tear, using the depreciation plan. In line with the Act on Accounting, non-current intangible assets are depreciated within 5 years from the date of their acquisition.

Non-current tangible and intangible assets with an acquisition cost not exceeding SKK 5,000 are written off immediately.

Non-current tangible and intangible assets with an acquisition cost exceeding SKK 5,000 are depreciated on a linear basis as follows:

	Depreciation period
Buildings	8 – 50 years
Cable lines, cables and other external equipment	30 years
Digital telephone exchanges	4 – 13 years
Radio and TV technology	8 – 30 years
Software	2 – 5 years
Other non-current assets	2 – 30 years

Land is not depreciated.

Should a temporary diminution in the value of a non-current asset identified during stocktaking be significantly lower than its carrying value (after deducting the accumulated depreciation), a provision is set up to reflect its net realisable value.

b. Financial investments

Shares and ownership interests are stated at cost, which includes the purchase price and transaction cost directly attributable to the acquisition. Regarding a temporary diminution in the value of financial investments, a provision is set up to reflect their net realisable value.

c. Inventories

Inventories acquired are stated at acquisition cost, which includes the purchase price and directly attributable costs (transport, commissions, customs duty, and insurance). From among internal services related to the purchase of inventories, only transportation costs are capitalised to acquisition cost. Borrowing cost is not included in the acquisition cost.

Notes to the Financial Statements for the year ended 31 December 2005

The Company used method A for the accounting of inventories. Same types of inventory in stock and subsequent disposals are valued/measured using a weighted average basis. Internally generated inventories are stated at own costs, which include directly costs and a attributable portion of related indirect costs. Regarding a temporary diminution in the value of slow-moving or obsolete inventories, a provision is set up to reflect their net realisable value.

d. Receivables

Receivables are initially stated at their nominal value. A provision is established, where necessary, for doubtful and bad debts and bankruptcy debtors.

e. Cash and cash equivalents

Cash and cash equivalents are stated at their nominal value.

f. Accruals and prepayments

Accruals and prepayments are stated at their nominal value and recognised on an accrual basis.

Deferred expenses are stated at the present value of future expenses and an increase in the value of deferred expenses due to the passage of time is recognised as interest income.

g. Provisions

Provisions represent liabilities of uncertain timing or amount. They are made to cover known business risks or losses. Provisions are stated at an anticipated nominal value of liability. Provision for asset retirement obligation is stated at the present value of a future liability.

h. Payables

Payables are initially stated at their nominal value. If a stocktaking reveals that the actual value of payables differs from their carrying value, the actual value is used for the valuation of the payables.

i. Deferred tax

Deferred tax (deferred tax asset and deferred tax liability) is recognised on:

- temporary differences between the carrying value of assets and the carrying value of liabilities shown in the balance sheet and their tax base,
- unused tax deductions and other tax assets available to be carried forward which can be offset against taxable profits in future periods.

j. Revenues

Sales revenues from the Company's own goods and services are reduced by discounts and deductions (rebates, bonuses, credit notes, etc.), regardless of whether the customer was entitled to the discount or whether the discount was granted additionally.

k. Foreign currency translation

Transactions denominated in a foreign currency are translated into Slovak crowns using the foreign exchange rate declared by the National Bank of Slovakia on the transaction date. Assets and liabilities denominated in foreign currency are translated into Slovak crowns using the foreign exchange rate of the National Bank of Slovakia prevailing on the balance sheet date. Foreign exchange gains or losses are recognised in the profit and loss account.

l. Derivatives

Derivatives are stated at the fair value. Changes in the fair value of derivatives concluded in over the counter transaction are recognised directly in equity, with no effect on the profit or loss.

Notes to the Financial Statements for the year ended 31 December 2005

F. Information about assets

1. Summary of movements of non-current tangible and intangible assets by individual balance sheet items:

	Software	Value rights	Other non-current IA	Acquisition of non-current IA
Acquisition cost as at 31.12.2004	3,488,702	7,552	44,460	200,902
Additions	0	0	0	717,576
Disposals	(411,185)	(5)	0	0
Surplus identified at stocktaking	0	0	0	0
Transfers	839,792	4,147	28,585	(877,275)
Acquisition cost as at 31.12.2005	3,917,309	11,694	73,045	41,203
Accumulated depr'n as at 31.12.2004	(2,058,556)	(3,642)	(7,958)	0
Depreciation	(817,465)	(1,732)	(26,021)	0
Disposals	405,213	0	0	0
Surplus identified at stocktaking	0	0	0	0
Transfers	0	0	0	0
Accumulated depr'n as at 31.12.2005	(2,470,808)	(5,374)	(33,979)	0
Allowances as at 31.12.2004	(642)	0	0	0
Movements	(642)	0	0	0
Allowances as at 31.12.2005	0	0	0	0
Net book value as at 31.12.2004	1,429,504	3,910	36,502	200,902
Net book value as at 31.12.2005	1,446,501	6,320	39,066	41,203

The Company has sold its headquarters building in Bratislava to the Ministry of Transport, Post and Telecommunication at 20 December 2005 in a transaction concluded at arm's length for SKK 393,660 thousand. The selling price consists of SKK 340,000 thousand settled in cash and of SKK 53,660 thousand which represents the present value of the prepaid rental cost (included in prepaid expense, note 6).

Insurance of non-current tangible assets

Slovak Telekom, a.s. has concluded a policy on the comprehensive insurance of non-current and current assets including the insurance of operations. The Company has insured all its assets including buildings, constructions, construction materials and facilities, inventories, technical and operational equipment, including distribution frames (including all types of cables), which are fully or partially owned, held, taken

Notes to the Financial Statements for the year ended 31 December 2005

Land	Buildings	Machines and equipment	Other non-current TA	Acquisition of non-current TA	Advances	Total
442,327	33,033,176	44,658,255	261,484	1,158,275	112,205	83,407,338
0	0	0	0	3,195,302	0	3,912,878
(109,262)	(976,704)	(3,972,853)	(96)	0	0	(5,470,105)
206	509	486	0	0	0	1,201
5	1,043,642	2,702,491	24,872	(3,689,704)	(76,555)	0
333,276	33,100,623	43,388,379	286,260	663,873	35,650	81,851,312
0	(10,699,084)	(28,097,146)	(21,250)	0	0	(40,887,636)
0	(988,684)	(5,035,607)	(6,190)	0	0	(6,875,699)
0	295,112	3,911,715	25	0	0	4,612,065
0	(509)	(486)	0	0	0	(995)
0	(2,164)	3,547	(1,383)	0	0	0
0	(11,395,329)	(29,217,977)	(28,798)	0	0	(43,152,265)
0	(480,115)	(921,100)	0	(23,662)	0	(1,425,519)
0	16,576	688,362	0	23,662	0	729,242
0	(463,539)	(232,738)	0	0	0	(696,277)
442,327	21,853,977	15,640,009	240,234	1,134,613	112,205	41,094,183
333,276	21,241,755	13,937,664	257,462	663,873	35,650	38,002,770

care of, administered or controlled by the Company, including any interruption of operations resulting from an insured loss, damage or other related costs including penalties. The insurance does not cover motor vehicles. The limit of the 2005 insurance was up to SKK 5,884,000 thousand.

Slovak Telekom, a.s. has concluded a „Fleet of Slovak Telekom” policy on automobile insurance of a group of motor vehicles and vehicles in-tow, owned or leased by

the Company. As at 31 December 2005, motor vehicles with an acquisition cost of SKK 920,000 thousand were insured.

Civil defence and economic mobilisation stock

Slovak Telekom, a. s. uses the civil defence and economic mobilisation stock of SKK 7,335 thousand (2004: SKK 10,403 thousand) which is not the Company's property.

Notes to the Financial Statements for the year ended 31 December 2005

2. Financial investments

As at 31 December 2005 the Company has following shareholding in its subsidiaries:

Company name and address	Share in equity (%)	Equity		Equity Profit / Loss	
		2005	2004	2005	2004
T-Mobile Slovensko, a. s. Vajnorská 100/a Bratislava	100 %	7,935,802	6,839,469	2,741,149	1,827,573
RK Tower, s. r. o. Cesta na Kamzík 14 Bratislava	100 %	661,588	688,247	(26,608)	(1,933)
TBDS, a. s. Cesta na Kamzík 14 Bratislava	100 %	983	-	(117)	-
Zoznam, s. r. o. Karpatská 8 811 05 Bratislava	90 %	15,427	-	11,134	-
Zoznam Mobile, s. r. o. Karpatská 8 811 05 Bratislava	100 %	8,417	-	7,987	-

Summary of movements in financial investments

	2004	Additions	Disposals	Transfer	2005
Shares and investments in controlled entity	11,804,925	93,530	(210)	-	11,898,245
Acquisition of financial investments	-	70,674	-	-	70,674
Other financial investments	13,998	-	-	-	13,998
Financial investments - gross	11,818,923	164,204	(210)	-	11,982,917
Allowances	13,998	-	-	-	13,998
Financial investments - net	11,804,925	164,204	(210)	-	11,968,919

On 31 August 2005, the Company acquired 90 % of the shares in Zoznam and became the sole shareholder of Zoznam Mobile. Zoznam is the provider of internet portal with principal revenue streams from advertising, priority listing and e-commerce. Zoznam Mobile specialises in providing mobile entertainment and the development of mobile-phone software.

The initial accounting for the acquisition of Zoznam Mobile is determined as provisional, the purchase consideration being dependent on the 2005 results of Zoznam Mobile.

Deferred consideration of SKK 25,388 thousand is considered the best estimate of the amount to be paid to the former shareholders as at 31 December 2005.

On 4 May 2005, the Board of Directors approved the dissolution of RK Transmission, s.r.o. and on 31 December 2005 the subsidiary was liquidated and deconsolidated.

On 20 April 2005, Slovak Telekom established a new subsidiary, TBDS, a.s..

Notes to the Financial Statements for the year ended 31 December 2005

3. Inventories

	2005	2004
Material	98,345	144,781
Work in progress and semi-finished goods	967	828
Merchandise	90,584	62,159
Advance payments	2,111	-
Total	192,007	207,768

The carrying value of inventory of SKK 272,041 thousand (2004: SKK 295,509 thousand) is recognised net of allowance for slow-moving and

excess inventories of materials and merchandise of SKK 80,034 thousand (2004: SKK 87,741 thousand).

Summary of movements of inventory allowance:

	2005	2004
Balance as at 1 January	87,741	120,140
Additions	21,758	11,027
Utilization	(29,465)	(43,426)
Balance as at 31 December	80,034	87,741

Inventory insurance

Inventories are insured under the policy on comprehensive insurance of non-current and current assets

including insurance of operations. For details see the section "Insurance of non-current assets".

4. Receivables

The structure of receivables by their maturity is as follows:

	2005	2004
Current receivables	4,062,344	2,583,871
Overdue receivables	1,204,488	824,203
Total	5,266,832	3,408,074

Notes to the Financial Statements for the year ended 31 December 2005

Addition to/utilization of allowances for doubtful debt is as follows:

	2005	2004
Balance as at 1 January	840,605	906,772
Additions	368,844	284,810
Utilization	(515,792)	(350,977)
Balance as at 31 December	693,657	840,605

Receivables from related parties:

	2005	2004
Receivables from related parties:		
receivables from T- Mobile Slovensko	2,424,360	108,487
receivables from Magyar Telekom	8,204	9,003
receivables from T- Hrvatski Telekom	903	1,214
receivables from T-Systems	106,932	44,284
receivables from Makedonski Telekomunikacii	12	35
receivables from T- Mobile Czech Republic	75	62
receivables from T- Systems Austria	114	274
receivables from RK Tower	2,385	29,473
receivables from Deutsche Telekom	55	-
receivables from T-System Pragonet	72	-
receivables from T-System Japan	366	-
Total	2,543,478	192,832

Receivables from T-Mobile Slovensko, a.s. include dividends of SKK 1,640,782 thousand and the unpaid

portion of a loan of SKK 700,000 thousand.

Notes to the Financial Statements for the year ended 31 December 2005

5. Short-term financial assets

	2005	2004
Cash		
Cash, stamps and vouchers	602	477
Bank accounts	16,498	57,793
Term deposits	1,952,059	1,968,299
Over 1-year term accounts	-	24,777
Cash equivalents		
Short-term discounted bills of exchange	1,137,580	2,683,273
Equity securities	110	110
Cash and cash equivalents	3,106,849	4,734,729
Allowances	(43)	(43)
Cash and cash equivalents, net	3,106,806	4,734,686

6. Prepaid expenses and accrued revenues

	2005	2004
Prepaid expenses	113,798	57,032
rent	62,972	1,558
insurance	12,877	11,205
international connections	4,583	5,314
IT services	10,810	12,519
repairs and maintenance	7,520	2,783
other	15,036	23,653
Accrued revenues	35,734	393
telecommunication services	35,197	-
other	537	393
Total	149,532	57,425

Rent includes prepaid rent of SKK 53,660 thousand for administrative premises (see note F.1).

Notes to the Financial Statements for the year ended 31 December 2005

G. Information about equity and liabilities

1. Equity

The registered capital of the Company is SKK 26,027,500 thousand as at 31 December 2005. The nominal value per share is SKK 1,000. Changes in equity (SKK '000) were as follows:

	2004	Increase	Decrease	Transfer	2005
Share capital	26,027,500	-	-	-	26,027,500
Capital funds					
Share premium	11,632,820	-	-	-	11,632,820
Other capital funds	18,522	206	-	-	18,728
Revaluation of shares	(47,731)	-	-	-	(47,731)
Non-distributable fund	130,000	-	-	-	130,000
Revaluation of assets	(117,527)	54,916	-	-	(62,611)
Profit funds					
Legal reserve fund	1,052,735	-	-	38,926	1,091,661
Statut. and other funds	18,758	-	-	-	18,758
Retained earnings	8,646,280	-	(4,300,000)	335,853	4,682,133
P/L for current period	389,271	1,626,322	(14,492)	-374,779	1,626,322
Total equity	47,750,628	1,681,444	(4,314,492)	-	45,117,580

The decrease of equity includes dividends of SKK 4,300,000 thousand approved by the Extraordinary

General Assembly. Dividends of SKK 800,000 thousand were not paid out as at 31 December 2005.

Breakdown of profit and loss recognised directly in the equity:

Revaluation of assets and liabilities:	
Change in the fair value of derivatives concluded in the over the counter transaction	54,916

The Company has entered into cross-currency swap contracts related to the borrowings extended by European Investment Bank and World Bank and into forward foreign exchange contracts to manage the exposure to fluctuations in foreign exchange rates related to repayments of foreign currency borrowings and anticipated future foreign currency expenditures.

These financial instruments represent hedging derivatives and changes in their fair values are recognised directly in the equity with a corresponding entry in the appropriate derivative account.

Notes to the Financial Statements for the year ended 31 December 2005

The Company was a party to the following cross-currency swaps as at 31 December 2005

Contract description	Payable	Receivable	Interest expense	Interest income	Due date
CPU/USD FX swap	USD 17,926,449	CPU 1,281	-	-	16. 8. 2010
EUR/USD IRS	EUR 28,987,814	USD 24,741,099	2.38 %	4.13 %	16. 8. 2010
EUR/SKK IRS	SKK 1,131,394,389	EUR 28,987,814	3.07 %	2.38 %	13. 8. 2010
EUR/SKK IRS	SKK 145,951,274	EUR 3,751,091	6.62 %	6.41 %	23. 6. 2008
EUR/SKK IRS	SKK 149,610,549	EUR 3,845,140	6.56 %	6.40 %	21. 8. 2009
EUR/SKK IRS	SKK 1,442,953,846	EUR 36,923,077	5.32 %	5.18 %	14. 9. 2011
EUR/SKK IRS	SKK 991,171,661	EUR 25,369,124	5.35 %	5.18 %	14. 9. 2011

The Company was a party to the following currency forwards as at 31 December 2005:

Contract description	Payable	Receivable	Due date
EUR/SKK forward	SKK 7,617,120	USD 240,000	13. 1. 2006
USD/SKK forward	EUR 2,430,000	SKK 92,011,950	13. 1. 2006

The General Assembly approved distribution of the profit for the year ended 31.

December 2004 on 22 April 2005 as follows:

The distribution of the profit for the year 2004

Profit	389,271
Distribution:	
Legal reserve fund	38,926
Contribution to social fund	14,492
Dividends	-
Retained earnings	335,853
Total	389,271

The proposal for distribution of the profit for the year ended 31 December 2005 was not approved at the balance sheet date.

Notes to the Financial Statements for the year ended 31 December 2005

2. Provisions

	2004	Additions	Use	Release	2005	Used by (estimate)
for termination benefits	378,626	181,698	149,519	138,512	272,293	2006
for legal and regulatory claims	83,394	933,970	20,000	80,605	916,759	by 2007
for personnel expenses	216,101	304,850	219,069	-	301,882	2006
for onerous contracts	27,933	-	27,933	-	-	-
for personnel leasing	113,983	164,201	162,779	30,850	84,555	2006
other	30,092	10,027	4,347	-	35,772	by 2045
Total	850,129	1,594,746	583,647	249,967	1,611,261	-

Provisions as per the balance sheet as of 31 December 2005 are of SKK 1,636,118 thousand. The difference of SKK 25,388 thousand represents investment accrual for the acquisition of shares in Zoznam Mobile that was not accounted for through profit and loss account.

Provision for legal and regulatory claims

A provision of SKK 885 million has been recognized in respect of a penalty imposed as a result of regulatory proceedings taken against the Company by the Anti-Monopoly Office of the Slovak Republic. On 14 January 2006 the Anti-Monopoly Office announced its enforceable second stage decision, by which the Company was required to make payment of SKK 885 million at 15 February 2006. The Company appealed against the second stage decision at the Bratislava Regional Court, obtaining a preliminary injunction that suspended the enforceability of the decision on 8 February 2006, and continues to explore all legal options available.

Provisions include further amounts in respect of certain legal and regulatory claims brought against the Company. In the opinion of the Company's management, 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 2005.

Provision for termination benefits

The re-ordering of the Company's operations will result in the loss of 1,160 jobs in 2006. An agreement has been reached with local trade union representatives based on a detailed formal plan that specifies the number of staff involved and their locations and functions. The amount of compensation to be paid to staff for terminating their employment was calculated by reference to the specific conditions included in the agreement with the trade unions. The termination payments are expected to be paid within twelve months after the balance sheet date and are recognised in full in the current period.

Notes to the Financial Statements for the year ended 31 December 2005

3. Payables

The structure of payables by their due date is as follows:

Payables as at 31 December 2005	within 1 year	from 1 to 5 years	over 5 years	Total
Trade payables	1,542,758	–	–	1,542,758
Income tax payable and deferred	239,929	3,026,451	–	3,266,380
Payables to partners	–	–	12,653	12,653
Payables due to employees	173,806	–	–	173,806
Social security	75,669	14,862	–	90,531
Other payables	800,913	412,731	–	1,213,644
Unbilled deliveries	788,345	–	–	788,345
Total	3,621,420	3,454,044	12,653	7,088,117

Other payables include unpaid dividends of SKK 800,000 thousand.

Age structure of payables:

	2005	2004
Current payables	6,845,300	7,015,654
Overdue payables	242,817	103,947
Total	7,088,117	7,119,601

Notes to the Financial Statements for the year ended 31 December 2005

Payables to related parties:

	2005	2004
Payables to related parties:		
payables to T-Mobile Slovensko	107,340	61,611
payables to T-Systems	51,448	38,721
payables to Magyar Telekom	2,427	6,942
payables to T-Hrvatski Telekom	-	336
payables to CTDI Nethouse Services	-	50
payables to Detecon	1,227	21,306
payables to Danet consult	-	5,132
payables to T-Systems Austria	5,092	9,136
payables to Deutsche Telekom	504,223	62,686
payables to T-System Nova	-	1,419
payables to RK Transmission	-	2,830
payables to RK Tower	770	14,367
payables to Sireo Real Estate Asset	424	-
payables to T-System Pragonet	183	-
Total	673,134	224,536

Payables to DT AG include dividends of SKK 408,000 thousand.

The Company has no other payables that would not be recorded in the accounting books and shown in the balance sheet.

4. Deferred tax liability

Deferred tax liability is recognised in the balance sheet as a long-term liability.

The change in deferred tax liability is as follows:

Balance as at 31 December 2004	3,049,490
Change	(23,039)
of which:	
recognised as a decrease in expenses	(26,148)
recognised in equity	3,109
Balance as at 31 December 2005	3,026,451

Notes to the Financial Statements for the year ended 31 December 2005

5. Social fund

	2005	2004
Balance as at 1 January	12,934	7,149
Increase	43,425	42,808
Decrease	(41,497)	(37,023)
Balance as at 31 December	14,862	12,934

6. Bank loans and borrowings

Structure of loans by their due date:

	2005	2004
Current portion of long-term loans	618,709	616,941
from 1 to 5 years	2,405,103	2,467,528
over 5 years	392,939	976,282
Total	3,416,751	4,060,751

Long-term loans

	Type of loan	Curr.	Amount in foreign currency (thousands)	Amount in SKK (thousands)	Interest rate in %	Due date	Guarantee
EIB	investment	EUR	69,888	2,644,977	5.18 %	2008 – 2011	State guarantee + commercial guarantee
World Bank	investment	USD	6,815	217,551	Cost Qualified Borrowing	2010	State guarantee
World Bank	investment	PUN	1,281.32	554,223	Cost Qualified Borrowing	2010	State guarantee
Total	-	-	-	3,416,751	-	-	-

Notes to the Financial Statements for the year ended 31 December 2005

7. Accrued expenses and deferred revenues

	2005	2004
Accrued expenses	55,540	63,474
Deferred revenues	679,103	621,873
Total	734,643	685,347

Deferred revenues include fees for telecommunication services collected in advance of SKK 638,562 thousand (2004: SKK 568,406 thousand). Accrued expenses and deferred revenues will be settled from 1 to 24 months from the balance sheet date.

Notes to the Financial Statements for the year ended 31 December 2005

H. Revenues

1. Sales of services and merchandise

	2005	2004
Sales of services	15,792,373	16,736,770
Revenues from merchandise	301,038	152,521
Total	16,093,411	16,889,291
Revenues from main type of services		
Traffic charges	4,699,168	6,746,306
Access fees	4,814,802	4,356,797
Other voice services	79,143	122,380
Total voice services	9,593,113	11,225,483
Content revenues	610,100	468,766
Data services	2,208,503	1,979,171
Terminal equipment	400,819	305,681
Total fixed network	12,812,535	13,979,101
Carrier services	1,556,874	1,542,958
On-line services	560,717	336,582
Broadcasting	794,923	803,914
Other	368,362	226,736
Total	16,093,411	16,889,291

Notes to the Financial Statements for the year ended 31 December 2005

Revenues - related parties

	2005	2004
Revenues - related parties:		
T-Systems	423,748	220,800
T-Hrvatski Telekom	839	9,511
Makedonski Telekomunikacii	75	112
Magyar Telekom	45,948	37,923
T-Mobile Slovensko	793,504	749,962
T-Mobile Czech Republic	312	276
T-Systems Austria	693	1,175
RK Tower	23,959	26,724
T-System Pragonet	439	-
T-System Japan	4,382	-
Total	1,293,899	1,046,483

Significant revenues from capitalisation:

	2005	2004
Capitalisation of internal services	651	3,196
Capitalisation of non-current intangible assets	15,252	69,119
Capitalisation of non-current tangible assets	162,662	146,889
Capitalisation of material	363,635	661,059
Total	542,200	880,263

2. Change in inventory

Description	2005	2004
Change in work-in-progress	139	554

Notes to the Financial Statements for the year ended 31 December 2005

3. Operating expenses and revenues

	2005	2004
Expenses – related parties:		
Deutsche Telekom	133,827	232,148
T-Systems	154,696	150,575
T-Hrvatski Telekom	-	4,132
Makedonski Telekomunikacii	-	223
Magyar Telekom	12,518	27,243
T-Mobile Slovensko	588,861	905,979
RK Tower	121,713	123,186
Eutelsat	-	174,468
T-Systems Austria	4,911	5,132
T-Systems Nova	-	10,709
Danet Consult	-	6,150
Detecon	8,330	-
T-System Pragonet	979	-
Total	1,025,835	1,639,945

4. Interest expense

	2005	2004
Interest expense, total		
of which:		
interest on long-term borrowings	188,014	219,571
interest on swaps	90,539	35,414
interest on operating loans and other interest	1	-
Total	278,554	254,985

Notes to the Financial Statements for the year ended 31 December 2005

5. Interest income

	2005	2004
Interest income, total		
of which:		
interest from term deposits	51,958	361,943
interest from swaps	78,390	13,256
interest from current accounts	6,394	5,949
Total	136,742	381,148

Notes to the Financial Statements for the year ended 31 December 2005

I. Expenses

1. Costs of services

	2005	2004
post office services	195,159	173,654
international connections	580,157	678,308
audiotex	131,897	84,984
advertising	401,482	403,202
interconnection charges	1,384,254	1,723,580
IT services	160,988	130,743
security services	102,293	106,059
audit, advisory services, expert opinions	101,435	188,243
intermediation	85,158	108,679
personnel leasing	161,486	262,073
rent	139,863	141,028
repairs and maintenance	537,225	492,884
other	450,183	414,768
Total	4,431,580	4,908,205

2. Other operating expenses

	2005	2004
Expenses for:		
material consumption	717,281	1,016,393
energy consumption	364,840	365,609
goods sold	339,905	163,707
personnel expenses	3,187,475	3,315,634
other operating expenses	1,457,483	304,423
depreciation	6,875,701	6,237,106
additions to legal and other provisions	581,446	1,075,391
additions to legal and other allowances	461,762	683,486
other	56,573	53,062
Total	14,042,466	13,214,811

Notes to the Financial Statements for the year ended 31 December 2005

3. Other significant financial expenses and revenues

	2005	2004
FX gains:	350,425	397,362
of which:		
realised	335,917	144,654
unrealised	14,508	252,708
FX losses:	405,752	1,525,631
realised	380,070	1,586,030
unrealised	25,682	(60,399)
Other financial expenses	115,529	144,457

Other financial expenses represent expenses for property insurance of SKK 56,284 thousand (2004: SKK 61,086 thousand), expenses for motor insurance of SKK 39,018 thousand (2004: SKK 40,395 thousand) and expenses for bank and other fees.

Notes to the Financial Statements for the year ended 31 December 2005

J. Contingent liabilities and assets, off-balance sheet items

1. Other financial commitments

The Company has other financial commitments which are not recorded in the accounts and recognized in the balance sheet.

Type of commitment	2005	2004
Legal or contractual commitment to subscribe to certain products		
investing activities	941,591	642,000
operating activities	990,841	-

2. Contingent liabilities

The Company is a party to the regulatory proceeding at the Anti-Monopoly Office of the Slovak Republic in which the first stage decision imposed a penalty in the amount of SKK 80 million. The Company appealed against the decision. According to the opinion of the Company's management, it is possible, but not probable, that the second stage decision will result in the obligation to pay the penalty and accordingly no provision for any liability related to these proceedings has been made in these financial statements.

The Company is involved in other legal and regulatory proceedings in the normal course of business. Management is confident that the Company will suffer no material loss as a result of such proceedings in excess of the provisions already recognised in the consolidated financial statements (Note G.2).

Notes to the Financial Statements for the year ended 31 December 2005

K. Income tax

Profit/Loss before taxation, of which:	2,735,471
19 % theoretical tax	519,739
adjustments to 2003 and 2004 corporate income tax	(1,518)
non-taxable/non-deductable tax differences	(294,072)
Total income tax	224,149
additional 2003 and 2004 corporate income tax	(1,518)
tax payable	261,586
deferred tax	(35,919)
Total income tax	224,149

Notes to the Financial Statements for the year ended 31 December 2005

L. Information about members of statutory, executive, supervisory and other bodies

Remuneration paid to members of statutory,
supervisory and executive bodies amounted to SKK
121,488 thousand as at 31 December 2005 (31
December 2004: SKK 121,994 thousand).

Notes to the Financial Statements for the year ended 31 December 2005

M. Related parties

The Company provides services to state bodies and state-owned business entities on an arm's length basis.

All transactions are conducted on arm's length terms agreed in writing.

The Company's revenues and expenses arising from transactions with its subsidiary T-Mobile, a.s. Bratislava and its parent company Deutsche Telekom AG are prevailing revenues and expenses in respect of telecommunication services and personnel leasing (Deutsche Telekom AG).

Particular revenues, expenses and receivables and payables are presented in the notes to the individual balance sheet and profit and loss account items.

Transactions with RK Tower, s.r.o. relate mainly to the lease of non-residential premises (expenses) and to accounting, marketing, legal and tax advisory services and asset management (revenues).

Notes to the Financial Statements for the year ended 31 December 2005

N. Post balance sheet events

Re-branding to Slovak Telekom, a.s. and introduction of T-Com business brand

On 14 February 2005 the Company officially announced the re-branding campaign. The business name of the company was changed to Slovak Telekom, a.s. (formerly Slovak Telecom, a.s.) according to the decision of the General Assembly with the effect from 8 March 2006. Starting with the 8 March 2006 the corporate brand consists of the magenta symbol „T“ and the name of the company itself. T-Com was introduced as the business brand, under which all fixed line products and services will be sold. Through this change the Company declares it belongs to an international group and demonstrates the international level also in the quality of the services it provides.

Regulatory claims

At 31 December 2005 the Company was a party to the regulatory proceeding at the Anti-Monopoly Office of the Slovak Republic in which the first stage decision imposed a penalty in the amount of SKK 885 million. The provision related to this proceeding was recognised in these financial statements (Note G2). The enforceable second stage decision was announced to the Company at 14 January 2006. The amount was due and was supposed to be paid at 15 February 2006. The Company is appealing against the second stage decision at the Bratislava Regional Court. The amount was not paid at the due date as the Court issued the preliminary injunction suspending the enforceability of the decision at 8 February 2006.

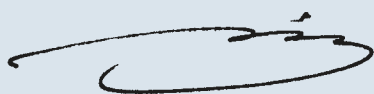
Notes to the Financial Statements for the year ended 31 December 2005

O. Cashflow statement for the year ended 31 december 2005

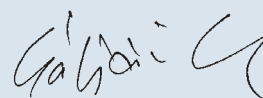
	2005	2004
Cash flow from operating activities		
Operating profit before tax	1,849,636	474,631
Non-cash transactions influencing the operating profit	5,502,578	6,025,279
Depreciation of non-current intangible and tangible assets	6,198,299	6,237,106
Net book value of disposed non-current intangible and tangible assets (except sale disposals)	684,129	-
Change in long-term reserves	760,601	159,067
Change in allowances to assets	(883,898)	49,099
Change in prepayments and accruals	17,602	-
Dividends and other shares on profit recorded in revenues	(1,640,782)	-
Interest expense	278,553	254,985
Interest income	(136,742)	(374,404)
Foreign exchange gains from cash and cash equivalents at the balance sheet date	(15,822)	-
Foreign exchange losses from cash and cash equivalents at the balance sheet date	13,866	979
Net result on disposal of non-current assets, except assets considered as cash equivalents	(92,553)	(74,905)
Write off of bad debts write off and other non-cash items	319,324	(125,235)
Change in working capital balance	(483,500)	890,568
Change in accounts receivable balance from operating activities	(217,957)	740,584
Change in accounts payables balance from operating activities	(313,787)	64,085
Change in inventories balance	23,467	85,899
Change in short-term financial assets balance except assets which are part of cash equivalents	24,777	-
Interest received except that included in investment activities	54,496	-
Income tax paid, except those included in investment or financial activities	273,200	(532,105)
Net cash flow from operating activities	5,346,774	6,383,742

Notes to the Financial Statements for the year ended 31 December 2005

	2005	2004
Cash flow from investing activities		
Acquisition of non-current tangible and intangible assets	(4,508,862)	(6,206,201)
Acquisition of investments in other accounting entities	(136,709)	(9,115,925)
Proceeds from the sale of non-current tangible and intangible assets	890,324	126,331
Proceeds from the sale of investments in other accounting entities	-	178,755
Interest received, except that included in operating activities	3,712	365,189
Short-term loan due from the group company	(700,000)	-
Net cashflow from investing activities	(4,451,534)	(14,651,851)
Cash flow from financing activities		
Repayment of loans	(644,000)	(635,034)
Interest paid, except those when included in operating activities	(193,786)	(234,314)
Dividends and shares of profit paid	(3,500,000)	(2,056,173)
Payments relating to derivatives	(90,539)	(194,167)
Proceeds relating to derivatives	78,390	-
Net cash flow from financing activities	(4,349,935)	(3,119,688)
Net decrease of cash and cash equivalents	(1,605,060)	(10,913,166)
Cash and cash equivalents at the beginning of the accounting period	4,709,842	15,623,987
Cash and cash equivalents at the end of the accounting period	3,106,739	4,709,842
Foreign exchange differences from cash and cash equivalents at the balance sheet date	1,956	(979)
Balance of cash and cash equivalents at the end of the accounting period	3,106,739	4,709,842



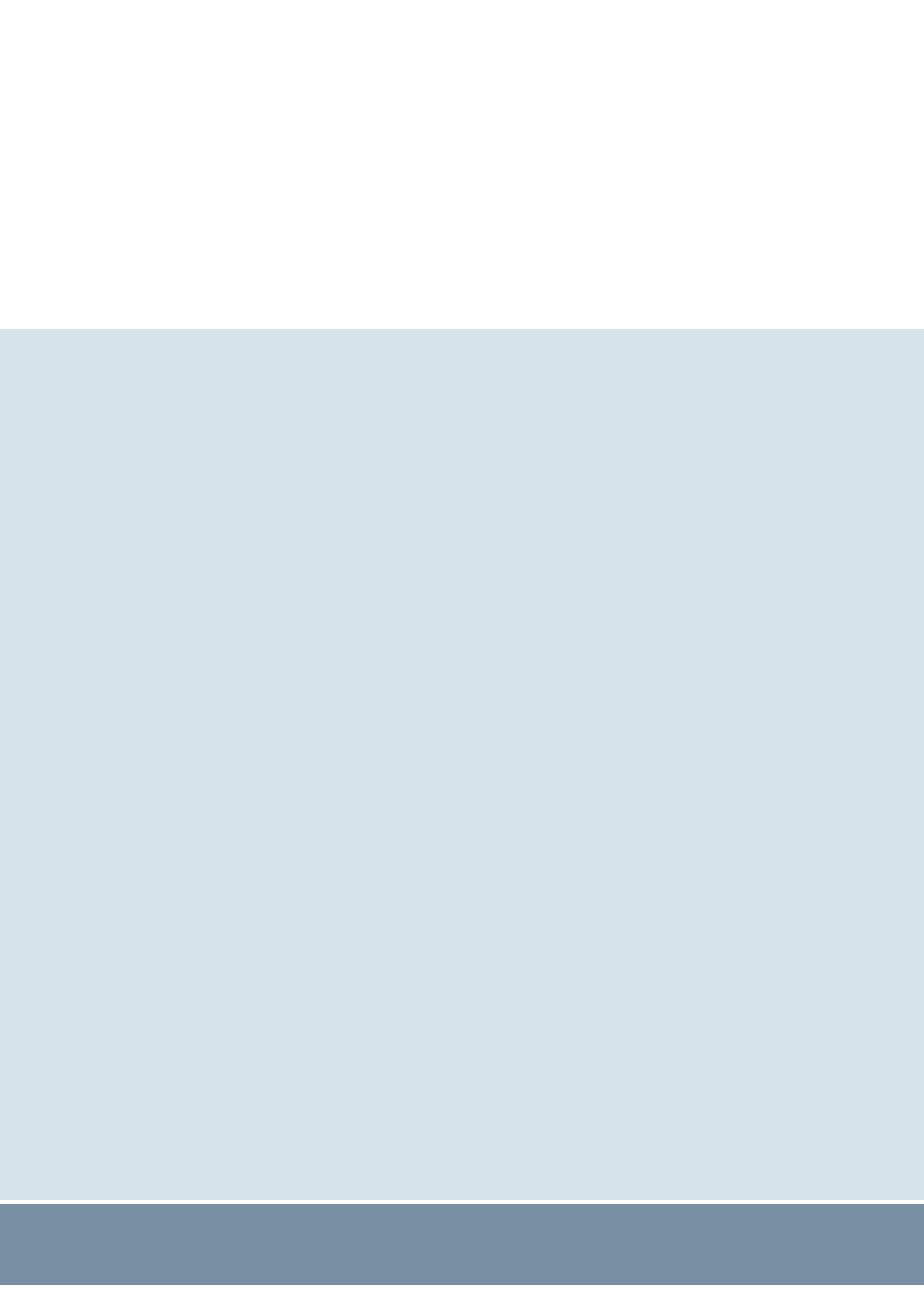
Ing. Miroslav Majoroš
President and the Chairman
of the Board of Directors



Szabolcs Gáborjáni-Szabó
Vice-President and the member
of the Board of Directors

Proposal for profit distribution for the year 2005 approved by corporate bodies

Profit after tax (in accordance with Slovak accounting legislation)	SKK 1 626 m
Distribution to funds:	
Reserve fund	SKK 163 m
Social fund	SKK 15 m
Retained earnings	SKK 1 448 m





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

tel.: +421 (2) 5881 0401, fax: +421 (2) 5249 1767
<http://www.slovaktelekom.sk>, <http://www.t-com.sk>, <http://www.t-mobile.sk>
e-mail: investorrelations@st.sk
Customer Services Centre: T-Com: +421 (0)800 123 456, T-Mobile: +421 (903) 903 903

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