ANNUAL REPORT 2018

SLOVAK TELEKOM

CONTENT

01 AN INTRODUCTION TO THE SLOVAK TELEKOM GROUP

A FOREWORD BY THE CHAIRMAN OF THE BOARD OF DIRECTORS AND CEO


Dear ladies and gentlemen,

the fiscal year of 2018 brought several changes to our Group, but the most important factor is that it was a successful year from the financial angle due to us managing to score year-on-year growth in both revenues and EBITDA. The telecommunications market has steadily declined since 2008, but the last year is an indicator that the tide can turn - with our Group contributing to this change with more than 2 per cent year-on-year revenue growth. Slovak Telekom invested heavily in building high-end networks and network investments, resulting in CAPEX increase of 9 percent year-on-year and in more households being covered and better connectivity for all customers. In March 2018, an important milestone was achieved: more than a million households connected at a speed of at least 30 Mbps. By the end of the year, 552 000 homes were covered by optics and 653 000 by VDSL technology.

We invested in mobile networks to radically improve the quality of 4G coverage in two areas: firstly, we improved 4G coverage of the Slovak population to 93.6 per cent, and secondly, we made significant investments to improve speeds and capacity, with 4G+ reaching up to 300 Mbps and in 13 cities up to 400 Mbps. We reached new record in Bratislava: up to 877 Mbps. Furthermore, two features were used to increase 4G network capacity and we heavily supported VoLTE (Voice over LTE) technology. As a consequence, it came as no surprise that we were awarded the P3 Best in Test award in December 2018 for the sixth time in a row.

In order to achieve first-rate customer experience, having the best network is not enough. Telekom also focuses on innovative and high-quality services. Given the ever-growing demand for data, Telekom introduced new ANO flat-rate packages in April - with significantly larger bundles of data, with further increases being introduced in October. Even more advantages apply to Magenta 1 customers with additional data and benefits.

Telekom always strives to provide the best TV experience on the market. In practice, we focus on two areas: selecting premium exclusive TV content, and a user-friendly rich platform. Telekom once again strengthened its position in regards to these areas. In addition to the Premier League and the Bundesliga, Telekom attained the television rights to other football competitions: Serie A, La Liga and the FA Cup. In June, the new Folklorika music channel was launched, as was the exclusive BBC Earth channel in November.

There was also innovation in the B2B segment - the launch of the NB IoT network for 88% of the population will enable Telekom to provide a broad ecosystem of partners with advanced solutions and IoT innovations. At the same time, several new products such as Call Recording and Managed Firewall were launched, and the cloud portfolio was enriched with the new Storage as a Service product.

The best network and excellent innovative services led to an increase in the customer base, which is our unrelenting ambition. The year 2018 was exceptionally strong in net customer growth – with some 126 000 new SIM cards being issued. standing December the 31st 2018, some 2,369,000 customers were using Telekom mobile service. Mobile flat-rates also enjoyed success, we introduced a brand new ANO portfolio and about 50 000 SIM cards, the base of prepaid cards also increased. We experienced growth in the fixed line business, where we increased the number of broadband access points to 688 000, and in particular in the number of TV customers - up to 617 000.

Telekom also engages in social responsibility. We already declared last year that - alongside long-term support - we had decided to include inclusive care features to eliminate prejudice in interpersonal communication in our communications standards. Throughout the year, the training of our call center agents and technicians continued in order to help better identify barriers on the part of customers, to tailor their communication style and to better understand their needs.

Last year, we increased the pace of investment to help digitalise the country. We perceive our responsibility to foster innovation and support our customers on the road to digitalisation. We are proud of this and we are happy that customers appreciate our efforts as more and more of them have come to trust us as a broadband internet provider and mobile service provider. This also means that our financial results show strong values. We do not wish to slow down, but to move forward in 2019. We believe our customers and indeed the entire market itself will appreciate our efforts.

Ing. Miroslav Majoroš
Chairman of the Board of Directors

Jose Severino Perdomo Lorenzo
CEO

2018 MILESTONES

JANUARY

New Magio wireless internet
This new feature is primarily intended for customers who do not have broadband Internet connections at home and want to use the internet at full speed. Slovak Telekom provides the possibility to connect up to 300/50 Mbps with a high-quality 4G network, with excellent coverage and the best quality possible.

MARCH

Over a million households with high-speed internet
Magio internet with a speed of at least 30 Mbps is available to more than a million Slovak households thanks to VDSL and fibre optics technologies.

StreamOn for Easy
The advantage of this service is the separate data billing for multimedia as both video and audio. When streamed, these figures are not subtracted from the normal daily Easy Card limit or the monthly data bundle. For StreamOn, several international and domestic services have been made available since its launch, including Apple Music, Deezer, Spotify, Magio GO, and YouTube.

APRIL

Slovak Telekom introduces new ANO fixed-rate plans
The new plans provide more data on the best 4G network, plus significant benefits for Magenta 1 members. ANO M features unlimited calls and unlimited SMS and MMS in Slovakia, EU countries and EU roaming countries as standard.

MAY

New folklore TV station launched
Folklorics (Folklorika) provides the best of Slovak folklore. The foundation is a stream of music and dance that alternates with blocks of regular programmes.

JUNE

VoLTE for 10 iPhone models
Support for Voice over LTE was extended to include several generations of Apple phones - from iPhone 6 to iPhone X. Slovak Telekom had extended VoLTE support to 52 devices by the end of the year.

VOD renewal as Magio Cinema
In addition to new content, the Magio Cinema provision and charging model was changed. The customer can choose one of the two packages, and the monthly fee includes unlimited viewing of movies and serials.

JULY

The 4G+ network reaches 500 Mbps
The first city districts of Bratislava were covered by an even faster network in order to provide customers with more capacity in the necessary areas.

SEPTEMBER

Slovak Telekom and DIGI Slovakia launch 5 new supplementary DIGI Sport channels
Channels provide matches that would otherwise not be featured in standard broadcasts. These channels are available with Magio GO for customers who use Magio TV from the L bundle and above, as well as Magio GO Premium customers. Also available for all DIGI GO customers.

OCTOBER

Slovak Telekom added additional mobile data to existing ANO flat rates
Every customer with ANO L program and higher has much larger volumes available.

NOVEMBER

4G celebrates its fifth anniversary in Slovakia
On Thursday the 15th of November 2018, exactly five years passed since the launch of the first commercial 4G network in Slovakia. Over this entire period, it was possible to significantly improve all the parameters of the network and to provide it where fast mobile internet was not yet available, whilst achieving several milestones in Slovakia.

4G+ 877 Mbps network launched in Petržalka
The most densely populated locality in Slovakia gained greater capacity.

DECEMBER

Slovak Telekom won the P3 Best in Test award for the sixth time
Slovak Telekom won in all categories and achieved its best ever result, ranking among the best networks in the world.

ZOZNAM AND ZOZNAM MOBILE

The launch of the new Zoznam.sk main page design: and the webslovnik.sk, Kariéra.sk websites. Kariéra.sk gained new functionality in the form of the Payroll filter, which allows customers to search for job offers according to salaries.

The Topky.sk News portal celebrated its 10th birthday.

POSAM

The potential to put Slovakia on the map named Connected car: In February 2018, Commander Services s.r.o., became a 100% subsidiary of PosAm, spol. The combined competences and know-how of both companies and the strong background of the Deutsche Telekom Group will enable the development of advanced Connected car solutions.

ParkDots became the official Deutsche Telekom group solution for smart parking: Deutsche Telekom experts have selected ParkDots as the official Deutsche Telekom solution for the DT Europe region from competitive solutions. As PosAm develops ParkDots, the team took on the role of Deutsche Telekom's domain experts for Smart parking.

DIGI SLOVAKIA

New DIGI Sport 6-10 channels launched: In the course of the year, DIGI Slovakia began broadcasting a new channels to provide sports content that would not normally be featured in regular broadcasts. The new channels are available on Magio GO and DIGI GO.

New set-top boxes with recording capability: In 2018, DIGI brought innovations in the field of viewing popular programs. New and existing customers using satellite TV were offered a new HD set-top box with a recording feature.

THE SLOVAK TELEKOM GROUP PROFILE

THE SLOVAK TELEKOM GROUP IS PART OF THE WORLDWIDE GROUP OF THE DEUTSCHE TELEKOM COMPANIES. THE UNMISTAKABLE GRAPHIC SYMBOL OF THE ASSOCIATED COMPANIES IS THE MAGENTA 'T' WHICH ADDITIONALLY INCORPORATES THE INTERNATIONALLY APPLICABLE VALUES UPHELD BY THE EMPLOYEES OF ALL COMPANIES WITHIN THE GROUP.

IDENTICAL VALUES FOR ALL DEUTSCHE TELEKOM COMPANIES:

- Customer satisfaction drives us
- We act responsibly and with respect
- Together or independently – we are one team
- The best place for performance and growth
- I am T – count on me

GROUP STRUCTURE

The Slovak Telekom Group consist of the parent company of Slovak Telekom, a.s. (hereinafter referred to as Slovak Telekom) and its subsidiaries Zoznam, s.r.o. (hereinafter Zoznam), Zoznam Mobile, s.r.o. (hereinafter referred to as Zoznam Mobile), Telekom Sec, s.r.o. (hereinafter referred to as Telekom Sec), PosAm, spol. s.r.o. (hereinafter referred to as PosAm) and DIGI SLOVAKIA, s.r.o. (hereinafter referred to as DIGI SLOVAKIA).

The Slovak Telekom Group - as a provider of comprehensive telecommunication services - provides its customers with fixed network services, Internet connections, digital and cable TV services, data services, consumer device sales, call centre services, mobile communication, Internet content (Zoznam and Zoznam Mobile) and security services (Telekom Sec).

All information mentioned in this Annual Report in connection with the Slovak Telekom Group relates to all companies forming the group.

A DEUTSCHE TELEKOM MEMBER

Slovak Telekom is part of the multinational Deutsche Telekom Group. Deutsche Telekom is a leading global telecommunication company that provides services to more than 180 million customers in 50 countries worldwide. The majority shareholder of Slovak Telekom is Deutsche Telekom Europe B.V. with a 100% stake. The ultimate parent company of Slovak Telekom is Deutsche Telekom AG.

EXECUTIVE BODIES

Jose Severino Perdomo Lorenzo
Chief Executive Office and a member of the Board of Directors (since 1.10.2018)
Jose Severino Perdomo Lorenzo graduated as an aerospace engineer in Madrid and worked at Boeing USA until 2000. He then strengthened Spain's McKinsey & Company as a management consultant, focusing on the telecom industry in Europe. In 2006, he joined Telefónica Spain and in 2008 became Vice President of the residential segment in Telefónica O2 in the Czech Republic. Later, he worked at Telefónica Digital in the global team responsible for new digital services. In 2014, he joined the Millic Group and took over as CEO of Tigo Paraguay, the market leader and a converged telecom operator. Since July 2018, he has been a member of the board of directors and since October 2018 the CEO of Slovak Telekom and T-Mobile Czech Republic.

Milan Vašina
Chief Executive Officer (until 30.9.2018)
Milan Vašina graduated from the Brno University of Agriculture Faculty of Economics. From 1997 to 2002 he worked for RadioMobil in the Czech Republic, first as a marketing communications manager and later as marketing manager for the residential segment. In 2002 he started working for EuroTel Bratislava as Marketing Director and in 2005 successfully led the rebranding of the company as T-Mobile Slovakia. Between 2007 and 2010 Milan Vašina was the General Director of the company. He participated in the integration of T-Mobile and Slovak Telekom, where in 2010 he served as executive director for marketing, sales and customer service. From January 2011 he was General Director of T-Mobile Czech Republic. From January 2016 he was also the General Director of Slovak Telekom. Milan Vašina left both positions on the 30th of September 2018.

Stephan Eger
Chief Financial Officer and Deputy CEO (until 31.3.2019)
Stephan Eger has over 20 years of business experience and more than 15 years of experience in management. Stephan started his career at the Finance and Treasury division of Ford motors in Venezuela. He then worked for four years at the Deutsche Bank headquarters in Frankfurt in the field of capital and asset management. After five years at Allianz from 2003 with pan-European, and global managerial responsibility, Stephan started working in 2005 with Lehman Brothers', tasked with managing German sales activities. In 2007 he joined the Deutsche Telekom Group as Head of Investor Relations. Over the past 8 years he has worked as the Deutsche Telekom business leader and reported directly to the CFO of Deutsche Telekom. During his tenure, Deutsche Telekom significantly strengthened its market value and its image of being an undervalued company was changed to that of a premium tradable company compared to its competitors. In addition, Deutsche Telekom won the prestigious Thomson Reuters Excel Award for "Best European Investor. Relations Company" across all industrial areas for two consecutive years - 2014 and 2015. In 2015, Stephan Eger was appointed to the position of Chief Financial Officer of T-Mobile Czech Republic. As of July 2016 Stephan Eger has also been the T-Mobile Czech Republic and Slovak Telekom CFO.

Pavel Hadrbolec
Chief Financial Officer (since 1.4.2019)
Pavel Hadrbolec has extensive experience in the telecommunications industry. In 2000, he joined Oskar (now Vodafone), being responsible for long-term planning and cash-flow at various analytical and project positions and he helped to bring the third operator to the Czech market. Since 2004 he had worked at T-Mobile Czech Republic, where he held a number of expert and managerial positions in the Finance Division, and also played an important role in the integration of T-Systems and GTS. For the past three years, he has held the post of Vice President of Performance management Europe at Deutsche Telekom's parent company. From the 1st April 2019 he became Chief Financial Officer in both Slovak Telekom and T-Mobile Czech Republic.

Dušan Švalek
Chief Residential Segment Officer (until 28.2.2019)
Chief Country Officer for Slovakia (since 1.3.2019)
Dušan Švalek completed his education at the Bratislava University of Economics and then at the University of Navarra in the area of business economics and management. He began his career in the Benckiser and Johnson & Johnson, and later served six years at The Boston Consulting Group. In 2004 he joined T-Mobile Slovakia as Director of the Customer Services Division and from 2007 was the Executive Director of the Marketing Division. As of July the 1st 2011 he was Executive Marketing Director and directed product management and development for voice and data services. As of October the 1st 2012 Dušan Švalek became Chief Residential Segment Officer in Slovakia and from July the 1st he took this position on both Czech and Slovak market, where he was responsible for marketing, sales and customer services in B2C segments. Since March the 1st 2019 he has been appointed as Chief Country Officer for Slovakia and he is heading up the Zoznam and DIGI Slovakia subsidiaries as well.

Ing. Peter Škodný
Chief ICT and Business Segment Officer (from 1.5.2018 until 28.2.2019)
Chief CX and Transformation Officer (since 1.3.2019)
Peter Škodný has more than 25 years of experience from Accenture in Slovakia and other countries in Europe. He joined the company in 1991 and was active on several managerial positions. Since 1997 he has been responsible for Slovak market and since 2012 he has managed the Hungarian unit as well. He had full responsibility for Accenture operations on both markets across all business dimensions. In 2012 he took over full responsibility for Accenture business in many markets for Deutsche Telekom. Since 2013 he has been responsible also for the Accenture Danubia Czech, Slovak, Hungarian, Croatian, Romanian and Bulgarian Geo Unit.

JUDr. Ján Pitoňák
Chief Legal and Corporate Affairs Officer (until 28.2.2019)
Chief Wholesale and Corporate Affairs Officer (since 1.3.2019)
Ján Pitoňák completed his education at the Bratislava Comenius University Law Faculty. He joined the Slovak Telekom Group in August 2000 at EuroTel (later to become T-Mobile Slovakia) in the position of Legal Department Head and later as executive director of the division for legal and regulatory relations. In 2001 he also became a chief clerk. After integration, he worked in the position of Director of Corporate Services. Since the 1st of October 2012 Ján Pitoňák has held the position of Executive Director for Legal and Corporate Affairs, in which he is responsible for the area of the regulatory and legal relations of the company, compliance, corporate security and public affairs.

Branimir Marić
Chief Technology and IT Officer
Branimir Marić graduated from Zagreb Technical University Faculty of Electrical Engineering and Computer Science. Branimir started working at the Hrvatski Telekom company in the management and development of the Internet network. Eventually he led the group for customer IP and data networks, was Head of Technical Research and Product Development, executive director of group strategy and the development network platform and also a member of the executive management of the Croatian T-Com. After the merger between Hrvatski Telekom and T-Mobile Hrvatska in January 2010 Branimir Marić held the position of Chief Operating Officer for service management and fixed and mobile network operations. As of the 1st of January 2012 Branimir has been the Slovak Telekom Executive Director for Technology and IT.

Jiří Vacek
Chief Human Resources Officer (from 1.2.2018 until 31.1.2019)
Jiří Vacek has more than 20 years experience with HR management in the Czech Republic, Slovakia and abroad. After completing his studies, Jiří worked in the fields of human resources at Walter Czech Republic and Sagem Czech Republic. From 2001 to 2017 Jiří worked for Nestlé - initially as the Human Resources Director for the Czech and Slovak Republics and later as the Regional Director of HR in Switzerland and Italy. In 2017, Jiří Vacek worked for his own company - HR ONE.

Uršula Kráľová
Chief Human Resources Officer (until 31.1.2018)
In 1995 Uršula Kráľová graduated in Management at the Bratislava Comenius University. She studied at the Kellogg School of Management at North-western University in Chicago between 2000 and 2001, thus acquiring an MBA from1997 to 2000 she held the position of Associate Account Director and Account Director at Leo Burnett in Chicago and Hong Kong. From 2002 to 2012 Uršula worked at McKinsey & Co., first in New Jersey and from 2007 in Prague in the position of Associate Principal. She provided advisory services to large companies and corporations and helped with strategy, organisation and operations. Uršula has provided consultancy on demanding integration and transformation projects by large enterprises, which often include work in the field of human resources.

THE BOARD OF DIRECTORS

Chairman:
- Ing. Miroslav Majoroš

Vice-chairs:
- Jose Severino Perdomo Lorenzo (since 1. 7. 2018)
- Guido Manfred Menzel (until 22. 6. 2018)

Member:
- Daria A. Dodonova

THE SUPERVISORY BOARD

Chairman:
- Danijela Bujič (since 1. 6. 2018)
- Dr. Hans-Peter Schultz (until 28. 5. 2018)

Members:
- Konstantina Bata
- Denisa Herdová
- Drahoslav Letko
- Dr. Henning Never

THE AUDIT COMMITTEE

Chairs:
- Daria A. Dodonova (since 21. 3. 2018)
- Axel Kauhausen (until 15. 2. 2018)

Members:
- Denisa Herdová
- Martin Renner (since 16. 2. 2018)
- Daria A. Dodonova (until 20. 3. 2018)

02 BUSINESS ACTIVITY REPORT

TECHNOLOGY, SERVICES AND PRODUCTS

IN 2018, SLOVAK TELEKOM INTRODUCED SEVERAL TECHNOLOGICAL INNOVATIONS, SERVICES AND TARIFFS. TRADITIONALLY, AS AN OPERATOR SLOVAK TELEKOM FOCUSES ON A NUMBER OF AREAS: INNOVATION, THE BEST CONNECTIVITY, CUSTOMER EXPERIENCE, AND THE AMBITION OF HAVING THE BEST TV SERVICES ON THE MARKET.

The basis is good quality networks and technologies where Slovak Telekom can provide excellent services and bring a better customer experience. The need to increase capacity for new services is obvious, especially in the field of triple play and various packages. But there are also increasing demands on mobile services, which is increasingly shown in the increase in flat-rate calls.

MAGENTA 1 AND ÁNO FLAT RATE PLANS

While the SmartHome product resonated in 2017, other innovations were the focus in 2018 – the first being StreamOn, which allows customers to stream unlimited music and video through supported applications such as YouTube, Netflix, Deezer, and Spotify. In March, this service was featured on prepaid Easy Cards, and in April also for monthly programs.

A significant innovation was the introduction of **ÁNO tariffs.** Each includes unlimited calls, with ÁNO M there are also unlimited SMS and new, larger data volumes than those in the previous portfolio. Each tariff can be activated with or without hardware - again with a variety of devices such as smartphones, tablets, and game consoles. The customer pays for the hardware gradually, thus allowing them to be able to afford middle and higher range models.

Magenta 1 still has many benefits for customers - ÁNO tariffs feature 50% to 100% more data or doubled free minutes. Slovak Telekom continues to provide special discounts on selected phones for Magenta 1. Every month a different model is selected, in the Christmas special, customers could choose from two types.

THE BEST CONNECTIVITY: MORE OPTICS AND NEW 4G EXTENSIONS

2018 was significant in both technology areas - fixed and mobile networks.

In 2018, a lot of money and effort went into expanding and condensing hard coverage over VDSL and optics. A better connection was made available to hundreds of thousands of households.

By the end of 2018, VDSL with a speed of at least 30 Mbps was available to over 653 000 homes and optics to over 552 000 households.

Slovak Telekom continued to expand its 4G network coverage to cover 93.6% of Slovakia's population by December the 31st, However, a much larger role was played by the various extensions and improvements made to the 4G network. Coverage through the faster 4G network increased to 27 locations.

The 4G + 300 Mbps network was installed in the towns of Stupava, Svätý Jur, Šamorín, Komárno, Dubnica nad Váhom, Nová Dubnica, Nemšová, Púchov and Považská Bystrica. 4G + 400 Mbps was installed in Nitra, Martin, Vrútok and Prešov. 4G + 500 Mbps is available in 12 urban areas of Bratislava.

Slovak Telekom achieved a new record - Bratislava's Petržalka district now has a 4G + network with a capacity of **877 Mbps** thanks to the implementation of 4x4 MIMO.

Higher speeds have also helped to introduce two new technologies. **256QAM** modulation has increased downloads to 500 Mbps and **64QAM** modulation has increased uploads across the network to 75 Mbps.

The expansion of support for VoLTE (Voice over LTE) continues. Thanks to this, customers do not have to switch from a 4G network to 3G or 2G, but they can make calls directly on the 4G network. The connection itself, which is already at the level of 2 seconds, is faster. Phone support in the portfolio is growing strongly and exceeded 50 models from eight brands.

In December, Slovak Telekom was again able to win the independent P3 test. Slovak Telekom won the test for the sixth time in four years and achieved its highest result ever. Not only did Slovak Telekom traditionally win the voice and data categories (once again with stricter methodology), but also the new category of crowdsourcing. This victory unambiguously confirms the strength of Slovak Telekom networks and its top customer experience, in addition to coverage, quality, speed and capacity in all regions of Slovakia.

Slovak Telekom has traditionally included a number of subsidised devices over the year: in addition to smartphones, tablets and laptops, this includes innovations such as electric scooters and robotic vacuum cleaners. Many hits by manufacturers such as the Samsung Galaxy S9, S9 + and Note9, the Huawei P20, P20 Pro and the Mate 20 Pro, the Sony Xperia XZ2 and XZ3, the Apple iPhone Xr, Xs and Xs Max and the Lenovo Moto G6 Play made their debuts in 2018.

THE CUSTOMER EXPERIENCE: THE NEW MOBILE APPLICATION

Slovak Telekom continued to provide what is known as substitution of services, i.e., all Magenta 1customers will be able to use mobile services in the event of temporary Internet or TV disruption. Through these means, the customer can use internet services (create a hotspot and cover the household) via mobile phone and enjoy the ability to watch mobile TV via Magio GO.

In October, Slovak Telekom kicked off the distribution of a completely **new Telekom app** for Android devices, and at the end of the year offered an update for iOS device owners as well. The new application has brought significantly simplified control, a new design and new capabilities. For the sake of clarity, the company also removed the features that were the least used.

In the mobile application, the customer can automatically sign in using the SIM card service currently in the phone. The app will recognise it and the service will automatically be launched. The customer can easily connect other fixed and mobile services that are registered to the same birth certificate number.

In addition to the design, the consumption display logic has changed – used minutes, SMS messages and data are not displayed, but their balance is displayed. The practical feature makes it significantly easier to pay for services. In the application, the customer can choose to store a credit card, which can then be used to pay invoices or top up credit virtually instantly.

The application also brought other features, such as turning on notifications for issued invoices, data use warnings, and the option of purchasing additional packages.

TV SERVICES: QUALITY CONTENT IS STILL DECISIVE

2018 was once again exceptionally successful from the point of view of television services. The number of Slovak Telekom TV customers exceeded 600 000 - the strong interest from customers is clear confirmation of the quality of this product.

The biggest news of the year was the launch of two exclusive projects - **Folklorika** and **BBC Earth**. Each of them extends the exclusive portfolio of Slovak Telekom's television services in different directions. The new documentary-music channel Folklorika - from Peter Nuñez - exceeded ambitious expectations, and since the beginning of June and for the rest of the year, was at the forefront of the Magio music channels.

In the autumn, Slovak Telekom in Slovakia exclusively managed to bring the BBC Earth channel to customers – a channel which has set the standard for quality documentary channels for years.

Throughout the year, Slovak Telekom succeeded in adding more than 10 new stations alongside its exclusive channels. In addition, Slovak Telekom continued to swap SD channels for HD, not only satellite channels but also on Magio GO. In 2018, Slovak Telekom introduced a renewed video rental portfolio, which enjoyed completely new content and form. Magio Cinema works on a monthly subscription basis for which the customer can watch an unlimited number of movies, the number of available titles has grown to over 500 and they are regularly rotated. At the end of the year, Slovak Telekom also included a large 30-channel Archive package which included HD.

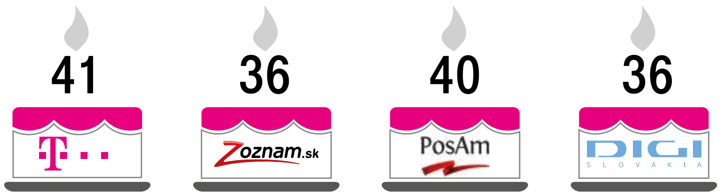
As part of IPTV, a new user interface was deployed in 2018, and now has a more modern design, is simpler and more streamlined. After the brand-new Magio GO Android mobile app, Slovak Telekom introduced a new app for iOS customers.

HUMAN RESOURCES AND EMPLOYEES

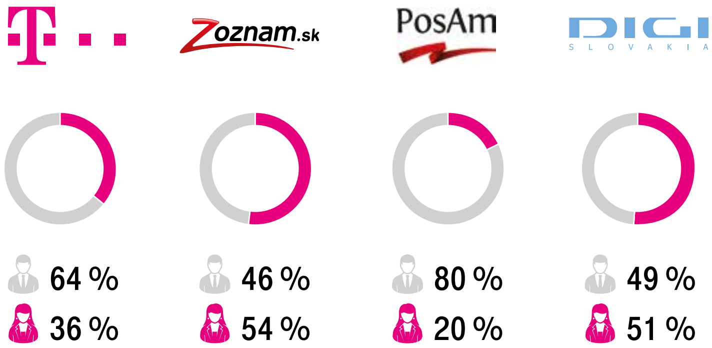
THE GROUP IN NUMBERS

In 2018, Slovak Telekom employed **2999** internal staff. During the period in question, Zoznam and Zoznam Mobile collectively employed **56** internal staff, PosAm and Commander Services **334** and DIGI Slovakia **140** internal staff.

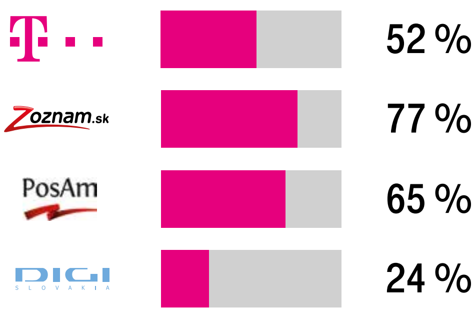
The average age of employees in Slovak Telekom and its affiliated companies was the following in 2018



Representation of men and women in Slovak Telekom and its affiliated companies was the following in 2018



Percentage of university graduates in Slovak Telekom and its affiliated companies. The remaining employees completed secondary school leaving exams



A HEALTHY COMPANY

Telekom regularly organises the Health Days event - both in Bratislava and on a regional level. In 2018, approximately 2000 employees took part; thereby receiving the opportunity to listen to interesting lectures, participate in workshops, consultations, exercises, massages, health tests and measurements. Field workers were also equipped with tick and insect bite kits. In addition, all participants were given vitamin kits. At the same time, staff had the option of donating blood three times throughout the year directly in their workplace - something that Telekom has facilitated for several years.

SHARING KNOWLEDGE

The fact that development is important to Telekom is additionally reflected in the provision of development opportunities to our employees. In addition to individual career plans for individual positions, Slovak Telekom provides the T-University development platform with a wide range of programs – namely various types of training, workshops, lectures, e-learning and videos. In 2018, several internal conferences with internal and external speakers were held under the auspices of T-University.

The mission of T-University is voluntary development for those who want to invest their time and energy in their personal growth beyond their work. Staff also work at T-Universities as trainers, sharing their know-how and experience with others. T-University programs attracted more than 4000 participants in 2018. In addition to T-University, staff may additionally make use of coaching, mentoring and social mapping for individual or team needs.

The proof that Slovak Telekom supports digitization and new forms of education comes courtesy of the online English and German lessons, a number of digital courses, e-learning, educational videos and e-books. Staff also have the opportunity to engage in inter-corporate cooperation and gain valuable insights from the external environment. Telekom also runs the **T-Tank** Czech-Slovak talent program as well as the W-lab program designed for colleagues with potential and interest in growth in management positions.

ACTIVITIES FOR STUDENTS

Telekom continues to focus on generation Y- through school lectures and events, as well as hands-on experience with staff, and supports several non-profit and student organisations. One of the supported projects is Aj Ty in IT (You in IT too), which aims to raise awareness of IT studies among girls and to stimulate their interest. In 2018, Slovak Telekom traditionally participated in a career event for students know as the **Business and Technology Night Of Chances**. In cooperation with Nexteria, the Nexteria Leadership Academy students were prepared for a semester project that provided the opportunity to work on real projects within the company.

In 2018, some of Telekom's own development activities for students continued. The 13th **T-Day** Conference for high school students was held in November. In cooperation with the Youth Alliance (Alianciou pre mladých), Telekom organised the **Big Step** event once again. The goal was to show students the backstage of the company, to familiarise them with the themes that resonate within the company, and to outline their opportunities after finishing school. Slovak Telekom welcomed several students to the **Trainee program** in order to find the most suitable ones with potential for growth.

COMMUNICATION

The development of the telecommunications market and the constant emergence of new technologies that increasingly form it are reflected in Telekom's communication and the scope of its main messages. With an expanded range of products and services, the number of customer interactions increases in parallel - increasing enormously the demands for a sustainable level of content and all forms of communication.

The launch of the year in terms of the media was the opening of Telekoms most up-to-date Telekoms store in Europe, the opening ceremony of which was held at the Central shopping centre in Bratislava in late January.

Folklorika, the P3 test and new ÁNO tariffs
A large percentage of the information published concerned the increased focus on the quality of customer services and products throughout the year, such as alternative payment options, a new **Telekom application**, and the continued increase in 4G signal coverage, reaching **93.6%** of the Slovak population by the end of the year and the expansion of **VoLTE** for yet more devices.

At the beginning of the summer, the media resonated with news of a new TV channel named **Folklorika**, in Autumn the exclusive **BBC Earth** channel was announced. Both were ranked among the most watched Magio TV channels shortly after being launched and still enjoy growing popularity, exceeding **600 000 customers** in 2018.

The highlight of 4G network communication came courtesy of the results for the best network in the P3 Communications test being defended, which Slovak Telekom managed for the sixth year in a row. Slovak Telekom won the **Best in Test** Certificate for the voice and data category and confirmed its position as a technology leader.

Regular attention was paid to new offerings such as the **Samsung Galaxy S9**, the **Huawei P20 Pro** and the Autumn launch of the anticipated **iPhone XR and XS**.

Undoubtedly, the dominant theme was the announcement and launch of new **ÁNO** tariffs, as well as the special Christmas offer with subsidised devices, whereby the iRobot robotic vacuum cleaner became a clear communication hit.

Bekim replaces Sagan
In 2018 there was a shift in the multinational positioning of the brand, which was also reflected on the Slovak market. Telekom now brings endless possibilities for new technologies to everyone with no exceptions. The effort to get as close as possible to the customer and their needs was also reflected in a change in the communication concept, whereby the face of Telekom changed for the first time in three years.

The national hero Peter Sagan was replaced with Bekim Aziri, an equally interesting, but common man. To the public he is known in particular as a hero for overcoming himself and his handicap - which has failed to stop him - thanks to modern day technological achievements.

Telekom was additionally very successful in creativity and advertising competitions. In the 2018 Golden Nail (Zlatý klinec) competition, Telekom became the best "Client of the Evening" thanks to the 9 awards it recieved. Along with MUW Saatchi & Saatchi, Telekom managed to win gold, 4 silver and 3 bronze awards. The Made by Vaculík agency was awarded the Silver Nail for their work with Telekom.

At the EFFIE 2018 competition, Telekom walked home with gold for its three years of communication with Peter Sagan. 2018 was successful one for Telekom in the field of media competitions, where Telekom won the award for the best local implementation of a global campaign for their work with Tomáš Brngál – the 'Sprav to. Jednoducho. Digitálne' campaign (Do it. Simple. Digital).

SOCIAL RESPONSIBILITY

Slovak Telekom is a long-standing and stable pillar of the Slovak business environment and is committed to the community in which does business. Last year, therefore, Slovak Telekom continued its long-standing effort to systematically shape the environment and communities through various social responsibility projects.

Most notably, Slovak Telekom once again became a member of the community through the **Perceptive Company** (Vnímavá firma) and the **Support for the Hearing Impaired** projects, which Slovak Telekom has continuously run since 2002.

The Perceptive company project - focused on inclusive care enlightenment is part of the customer experience - continued in the internal environment in 2018. Training was carried out for further staff at the contact centers, with the aim of providing inclusive experience for all employees who are in regular contact with customers.

In the area of assistance to the hearing impaired, the **Online interpreter** project continued, as did the **Mobile Teacher** program, which has focused on supporting early care for families with children suffering from hearing disabilities for 6 years.

Every year, Slovak Telekom helps to improve environmental, social and employment areas through the "**Helping the community**" staff grant challenge, whereby they can target support directly where they feel it is needed at their own discretion.

Due to the nature of the business, Slovak Telekom realises that targeted enlightenment and education should serve to eliminate the risks associated with corrupt behaviour. Therefore, every year Slovak Telekom organises an **Anti-corruption day**.

All aspects of Slovak Telekom's "imprint" in the field of social responsibility are featured in detail in the Social Responsibility Report which, since 2016, has mapped activities on a two-year basis.

THE CODE OF CONDUCT

The Code of Conduct is a key document for the prevention of unethical behaviour. Since January 2018, Slovak Telekom has put into practice a revised Code of Conduct. Slovak Telekom seeks to engage business partners, suppliers and third parties to adhere to the Code of Conduct, for example; in connection with the conclusion of framework contracts and in tenders etc.

The new Code of Conduct is implemented in all Deutsche Telekom Group companies. Slovak colleagues from the legal, compliance and internal communication department contributed to the Slovak version of the document.

DIGI SLOVAKIA

PRODUCTS AND SERVICES

DIGI SLOVAKIA seeks to deliver quality content while maintaining a stable price for its basic bundle deal. Every year, customers are provided with increasing value in the form of new exclusive content and television programs with the aim of achieving ever greater customer satisfaction.

In 2018, new television channels were added to the portfolio, such as Ťuki HD, the BBC Earth documentary channel and Folklorika. DIGI also improved the HU + package by including channels such as Film4, RTL Gold, Galaxy 4 and others. What's more - multiple SD channels were replaced by their HD versions.

The new PREMIUM bundle
In 2018, DIGI did not change the price of the popular standard bundle. However, changes occurred in the context of providing a wider bundle of basic content. In November, the sale of Maxi, which was replaced by Premium, was completed. This bundle also includes the popular BBC Earth channel.

Expand Internet Service Coverage
At the end of the year, DIGI expanded its Internet access service. Customers could choose from two basic bundles - Standard PLUS or Premium. The internet access service was available to customers separately or as part of 2PLAY bundles, even with satellite TV service.

DIGI SPORT TV channels
In 2018, DIGI SLOVAKIA continued to deliver hundreds of football matches from the world's best leagues. Customers could watch the English Premier League, Spain La Liga, German Bundesliga, Italian Serius A, as well as the oldest cup in England - the FA Cup.

In addition to football, viewers could also watch tennis from ATP 500, ATP 1000, the WTA Premier Tour, Championships, Diamond League athletics and other sports events.

New DIGI GO features
The most significant news as of September 2018 was the occasional broadcasting of sports content over the Internet in addition to content broadcast through DIGI SPORT 1 through 5. This resulted in the direct broadcast of sporting events with greater freedom of choice. To ease the orientation and differentiation of individual sports broadcasts, internet broadcasts were labelled as DIGI SPORT 6-10.

New set-top boxes with recording capability
In 2018, DIGI brought innovations in the field of viewing popular programs. New and existing customers using satellite TV were offered a new HD set-top box with a recording feature.

El Clásico at the cinema
DIGI SLOVAKIA was able to organise live football coverage on large cinema screens in Slovakia for the first time ever. The event was met with great interest and DIGI plans to conduct similar activities in the future.

SOCIAL RESPONSIBILITY

In 2018, DIGI SLOVAKIA supported the following events: The Peter Sagan Children's Tour, Unicef - Blue Button, ChessFest, Children's Stars, the MTB Marathon, Bike Fest, The New Film Festival, The Beach Volley Cup, The creative Motorbike Championship, Young Angels, Grab a Ball, not Drugs, The Business Golf Tour, Volleyball Golden League, The Badminton Tour, Star for Stars and Tennis champions. Digi also supported the Slovan Bratislava ice hockey club this year.

ZOZNAM AND ZOZNAM MOBILE

PRODUCTS AND SERVICES

In 2018, Zoznam continued to improve its products for its users. Due to the increase in traffic from mobile devices, the company redesigned its mobile versions of web magazines.

The new design graced the Zoznam.sk. main page. The redesign of the longstanding site was prepared in accordance with the modern UX, but also respected the habits of long-term users who use the website as a home page.

Of course, the application of security measures, such as the move to a secure HTTPS protocol for the entire web portfolio and fulfilling all the obligations under the GDPR Directive were an integral part of the change.

Zoznam focused on the implementation of advertising networks in order to monetise the advertising space more efficiently: A case study on the use of the native Strossle platform on the Zoznam's websites was submitted to two international competitions: IAB Europe MIXX Research and Digiday Media Awards. In both cases it was shortlisted as the only media representative from Slovakia and the Czech Republic. The short-listing for the Digiday Media Awards resulted in a win in the "Best Native Advertising Platform" category.

SOCIAL RESPONSIBILITY

Zoznam, s.r.o. (L.t.d.) Continuously supports third sector activities, actively contributing to the fulfilment of socially beneficial goals in line with its own corporate culture.

In 2018, the Zoznam provided media support on its portfolio websites for: The Red Cow Clowndoctors civic association, The Smile as Gift civic association, The Savio civic association, The Magna Children in Need civic association, The Drop of Hope Foundation, The Moonlight camp civic association, The Slovak Children's Foundation a Foundation NPO, Transparency International Slovakia, The Hearing Impaired Children's civic association, The Slovak League for Mental Health civic association and many others.

The Kariéra.sk career portal - along with its Karierainfo.sk service content magazine - participated in an advisory and educational project for the general public known as "Careers (.sk) on the beach". The second year of the project attracted more than 500 participants to the Magio beach in Bratislava.

The portal continued in 2018 with the "Breakfast with Careers" B2B project, which provides inspirational lectures by leading HR department staffers.

In 2018, the company additionally supported the Konšpirátori.sk initiative through the membership of Martin Mác in the evaluation committee. Konspiratori.sk provides advertisers with a list of untrustworthy, misleading and propaganda peddling websites that they do not recommend advertising on.

Zoznam remained a member of the Advertising Council's self-regulatory body in 2018, actively participating in the cultivation of online advertising.

POSAM

2018 brought about a lot of interesting shifts in performance, the product portfolio, and also in PosAm's regional presence. Many years of efforts focused on the strategic development and direction of the company began to bear fruit.

This applies in particular to the acquisition of Commander Services – the market leader in the vehicle traffic monitoring segment, and also to our ParkDots solution becoming the preferred solution in the Deutsche Telekom Group. Joining the new IoT market segment has contributed decisively to the record-breaking results the PosAm Group has achieved and the historically highest added value and EBITDA.

In the segment of unique software solutions, PosAm retained all key customers in the public and commercial sectors. PosAm's technological development was confirmed by ČEZ Distribuce. With its custom solution for managing field service staff, PosAm succeeded in an international tender and won a major contract, thereby confirming that PosAm is one of the top Slovak companies in regard to the development of unique software solutions.

A traditional factor pertaining to PosAm's activities is the company's involvement in creating the infrastructure necessary to run software solutions. PosAm has made significant progress in adopting a modern concept of infrastructure creation through software code that is capable of using the cloud environment for automated infrastructure generation, which accelerates, cheapens and increases reliability.

The Company's long-term activities include end user equipment care for large public and commercial organisations. In 2018 PosAm focused on further measures for greater efficiency to maintain competitiveness in this price-sensitive market segment.

The significantly good business breakthrough with which PosAm entered the new year serves to emphasise the overall positive image of the past year. It is important that PosAm is increasingly being promoted abroad and that it has successfully entered the new IoT segment, which has a great future.

SOCIAL RESPONSIBILITY

The Dionysus Ilkovic Award for a further three exceptional teachers
The winner of the second Dionýz Ilkovič Award - awarded for the development of extracurricular activities - was Dr. Ľubomír Konrád the Veľká okružná 22 secondary school in Žilina. In the final, he met RNDr. Jana Plichtová from the Alejová 1 secondary school in Košice and Dr. Iveta Štefančínová, PhD., from the Jan Adam Rayman secondary school in Prešov. The finalists and the winner were decided by an expert jury led by Doc. Mgr. Martin Plesch, PhD. of the Slovak Academy of Sciences and the President of the International Youth Physics Tournament. The awards were presented to the finalist on November the 7th 2018 during a festive evening at the Slovak Philharmonic in Bratislava. The awards are implemented with the support of PosAm.

PosAm brings the DDD community project to life
PosAm believes that the ability to move forward requires the sharing of knowledge. To that end, PosAm launched the DDD community project that enabled specialists on Domain-Driven Design and related topics to share their experiences at regular meetings. The great interested confirmed that the topic of DDD application in practice is very current and that PosAm can contribute valuable insights into it.

03 **FINANCIAL STATEMENTS**

Slovak Telekom, a.s.

CONSOLIDATED FINANCIAL STATEMENTS

prepared in accordance with International Financial Reporting Standards (IFRS) and Auditor's Report

FOR THE YEAR ENDED 31 DECEMBER 2018

CONTENTS

INDEPENDENT AUDITOR'S REPORT

pwc

Independent Auditor's Report

To the Shareholder, Supervisory Board, and Board of Directors of Slovak Telekom, a.s.:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Slovak Telekom, a.s. (the "Company") and its subsidiaries (together - the "Group") as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated income statement and consolidated statement of comprehensive income for the year ended 31 December 2018;
- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants issued by the International Federation of Accountants ("Code of Ethics") and other requirements of legislation that are relevant to our audit of the consolidated financial statements in the Slovak Republic. We have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 28 to these consolidated financial statements, which describe the infringement decisions of the European Commission and Antimonopoly Office of the Slovak Republic against the Company and the implications thereof. The ultimate outcome of the related proceedings cannot presently be determined.

PricewaterhouseCoopers Slovensko, s.r.o., Karadžičova 2, Bratislava, 815 32, Slovak Republic
T: +421 (0) 2 59350 111, F: +421 (0) 2 59350 222, www.pwc.com/sk

The company's ID (IČO) No. 35739347.
Tax Identification No. of PricewaterhouseCoopers Slovensko, s.r.o. (DIČ) 2020270021.
VAT Reg. No. of PricewaterhouseCoopers Slovensko, s.r.o. (IČ DPH) SK2020270021.
Spoločnosť je zapísaná v Obchodnom registri Okresného súdu Bratislava 1, pod vložkou č. 16611/B, oddiel: Sro.
The company is registered in the Commercial Register of Bratislava 1 District Court, ref. No. 16611/B, Section: Sro.

pwc

Reporting on other information in the annual report

Management is responsible for the annual report prepared in accordance with the Slovak Act on Accounting No. 431/2002, as amended (the "Accounting Act"). The annual report comprises (a) the consolidated financial statements and (b) other information.

Our opinion on the consolidated financial statements does not cover the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the annual report, we considered whether it includes the disclosures required by the Accounting Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the annual report for the year ended 31 December 2018 is consistent with the consolidated financial statements; and
- the annual report has been prepared in accordance with the Accounting Act.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the annual report. We have nothing to report in this respect.

Management's responsibilities for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks,

pwc

and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers Slovensko, s.r.o.
SKAU licence No. 161

Slovenská komora audítorov
SKAU
Č. licencie 161
PricewaterhouseCoopers Slovensko s.r.o.

Mgr. Marián Mihaľo
UDVA licence No. 1187

Bratislava, 14 March 2019

pwc

Our report has been prepared in Slovak and in English. In all matters of interpretation of information, views or opinions, the Slovak language version of our report takes precedence over the English language version.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER

thousands of EUR	Notes	2018	2017
Revenue	5	767,242	747,837
Staff costs	6	(132,691)	(129,807)
Material and equipment		(91,645)	(87,640)
Depreciation, amortisation and impairment losses	12, 13	(165,600)	(186,971)
Interconnection and other fees to operators		(59,235)	(54,673)
Impairment losses on financial and contract assets		(8,642)	(4,812)
Other operating income	7	24,830	18,743
Other operating costs	8	(182,655)	(194,308)
Operating profit		151,604	108,369
Financial income	9	2,667	3,544
Financial expense	10	(1,123)	(1,379)
Net financial result		1,544	2,165
Profit before tax		153,148	110,534
Income tax expense	11	(40,331)	(37,610)
Profit for the year		112,817	72,924

The consolidated financial statements on pages 28 to 73 were authorised for issue on behalf of the Board of Directors of the Group on 14 March 2019 and signed on their behalf by:

Jose Severino Perdomo Lorenzo
Vice-chairman of the Board of Directors

Daria A. Dodonova
Member of the Board of Directors

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

thousands of EUR	Notes	2018	2017
Profit for the year		112,817	72,924
Other comprehensive income			
Gain / (loss) on remeasurement of defined benefit plans	22	23	(533)
Deferred tax income / (expense)	11	(5)	112
Other comprehensive income not to be reclassified to profit or loss in subsequent years, net of tax		18	(421)
Other comprehensive income for the year, net of tax		18	(421)
Total comprehensive income for the year, net of tax		112,835	72,503

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER

thousands of EUR	Notes	2018	2017
ASSETS			
Non-current assets			
Property and equipment	12	712,979	724,321
Intangible assets	13	328,776	326,635
Deferred tax	11	1,457	1,097
Other receivables	15	1,394	1,646
Contract assets	30	23,727	-
Contract costs	30	5,213	-
Prepaid expenses and other assets	16	11,192	13,685
		1,084,738	1,067,384
Current assets			
Inventories	17	15,402	16,517
Term deposits	18	3,432	6,336
Loans	19	217,000	183,000
Trade and other receivables	15	108,190	111,063
Contract assets	30	47,702	-
Contract costs	30	15,158	-
Prepaid expenses and other assets	16	14,790	9,079
Current income tax receivables		569	824
Cash and cash equivalents	20	73,207	77,325
		495,450	404,144
TOTAL ASSETS		1,580,188	1,471,528
EQUITY AND LIABILITIES			
Shareholders' equity			
Issued capital	21	864,113	864,113
Statutory reserve fund	21	172,823	172,823
Other		(2,813)	(2,833)
Retained earnings and profit for the year		179,988	81,671
Total equity		1,214,111	1,115,774
Non-current liabilities			
Deferred tax	11	94,688	86,059
Provisions	22	30,480	32,071
Other payables	23	4,730	4,707
Contract liabilities	30	4,704	-
Other liabilities and deferred income	24	242	5,589
		134,844	128,426
Current liabilities			
Provisions	22	10,032	6,117
Trade and other payables	23	125,818	145,851
Contract liabilities	30	53,552	-
Other liabilities and deferred income	24	37,870	73,076
Current income tax liabilities		3,961	2,284
		231,233	227,328
Total liabilities		366,077	355,754
TOTAL EQUITY AND LIABILITIES		1,580,188	1,471,528

The accompanying Notes form an integral part of these Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER

thousands of EUR	Notes	Issued capital	Statutory reserve fund	Other	Retained earnings	Total equity
Year ended 31 December 2017						
At 1 January 2017		864,113	172,823	(2,351)	69,979	1,104,564
Profit for the year		-	-	-	72,924	72,924
Other comprehensive expense		-	-	(421)	-	(421)
Total comprehensive income		-	-	(421)	72,924	72,503
Transactions with shareholder						
Other changes in equity		-	-	(61)	-	(61)
Dividends	21	-	-	-	(61,232)	(61,232)
At 31 December 2017		864,113	172,823	(2,833)	81,671	1,115,774
Year ended 31 December 2018						
At 1 January 2018		864,113	172,823	(2,833)	81,671	1,115,774
Change in accounting policy	2.20	-	-		52,137	52,137
Restated total equity at 1 January 2018		864,113	172,823	(2,833)	133,808	1,167,911
Profit for the year		-	-	-	112,817	112,817
Other comprehensive income		-	-	18	-	18
Total comprehensive income		-	-	18	112,817	112,835
Transactions with shareholder						
Other changes in equity		-	-	2	-	2
Dividends	21	-	-	-	(66,637)	(66,637)
At 31 December 2018		864,113	172,823	(2,813)	179,988	1,214,111

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER

thousands of EUR	Notes	2018	2017
Operating activities			
Profit for the year		112,817	72,924
Adjustments for:			
Depreciation, amortisation and impairment losses	12, 13	165,600	186,971
Interest income, net		(822)	(874)
Income tax expense	11	40,331	37,610
Gain on disposal of property and equipment and intangible assets	7	(5,340)	(387)
Other non-cash items		7,415	4,862
Movements in provisions	22	3,512	(27,505)
Changes in working capital			
Change in trade receivables and other assets		(15,956)	(1,325)
Change in inventories		950	(475)
Change in trade payables and other liabilities		(11,212)	7,261
Cash flows from operations		297,295	279,062
Income taxes paid		(44,847)	(48,524)
Net cash flows from operating activities		252,448	230,538
Investing activities			
Purchase of property and equipment and intangible assets	12, 13, 23	(143,126)	(127,051)
Proceeds from disposal of property and equipment and intangible assets		8,990	1,662
Acquisition of interest in subsidiary	4	(3,795)	-
Disbursement of loans		(114,000)	(200,000)
Repayment of loans		80,000	197,000
Acquisition of term deposits		(3,357)	(9,074)
Termination of term deposits		6,867	6,469
Interest received		207	176
Other charges paid for investing activities		-	(184)
Net cash flows used in investing activities		(168,214)	(131,002)
Financing activities			
Dividends paid	21	(66,637)	(61,232)
Repayment of financial payables	23	(21,194)	(16,591)
Other charges paid for financing activities		(521)	(570)
Net cash used in financing activities		(88,352)	(78,393)
Net (decrease) / increase in cash and cash equivalents		(4,118)	21,143
Cash and cash equivalents at 1 January	20	77,325	56,182
Cash and cash equivalents at 31 December	20	73,207	77,325

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

INDEX TO THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

These consolidated financial statements have been prepared for Slovak Telekom, a. s. ("the Company"or "Slovak Telekom") and its subsidiaries DIGI SLOVAKIA, s.r.o. ("DIGI"), PosAm, spol. s r. o. ("PosAm"), Commander Services, s.r.o. ("Commander Services"), Zoznam, s. r. o. ("Zoznam"), Zoznam Mobile, s. r. o. ("Zoznam Mobile") and Telekom Sec, s. r. o. ("Telekom Sec") (together "the Group").

Slovak Telekom is a joint-stock company incorporated on 1 April 1999 in the Slovak Republic. The Company's registered office is located at Bajkalská 28, 817 62 Bratislava. The business registration number (IČO) of the Company is 35 763 469 and the tax identification number (DIČ) is 202 027 3893. For shareholders overview of the Company refer to Note 21.

Slovak Telekom is the largest Slovak multimedia operator providing its products and services under the Telekom brand via fixed and mobile networks. In terms of fixed networks the Company is the largest optical fibre and metallic cable broadband internet provider in the country (FTTX, ADSL and VDSL), providing digital television through state-of-the-art IPTV and DVB-S2 satellite technology. In the field of mobile communications the Company provides internet connectivity via several high-speed data transmission technologies - namely GPRS/EDGE, UMTS FDD/HSDPA/HSUPA and LTE. Slovak Telekom's customers receive roaming services in mobile operator networks in destinations all over the world. Slovak Telekom is considered the leader in the provision of telecommunication services to the most demanding segment of business customers, both in terms of the respective range of services as well as in terms of quality.

On 20 June 2017 Slovak Telekom was granted a licence for the provision of wireless services in the frequency band 3700 MHz in Bratislava by the Regulatory Authority for Electronic Communications and Postal Services ("Regulatory Authority"). The licence is valid until 31 December 2024. This authorisation complements the actual portfolio of frequencies held by Slovak Telekom: the LTE licence (bands 800 MHz and 2600 MHz) valid until 31 December 2028, authorisation for the provision of mobile services on 900 MHz and 1800 MHz frequency bands, which is valid up to 31 December 2025, and the UMTS licence for 2100 MHz frequency band (including the 28/29 GHz frequency band for backhaul connections), which is valid up to 31 August 2026.

At 31 December 2018 the Company had the following fully consolidated direct subsidiaries:

Name and registered office	Activity	Share and voting rights
DIGI SLOVAKIA, s.r.o. („DIGI") Röntgenova 26, 851 01 Bratislava	TV services, broadband services and TV channels production	100%
PosAm, spol. s r.o. ("PosAm") Bajkalská 28, 821 09 Bratislava	IT services, applications and business solutions	51%
Zoznam, s.r.o. ("Zoznam") Viedenská cesta 3-7, 851 01 Bratislava	Internet portal	100%
Zoznam Mobile, s.r.o. ("Zoznam Mobile") Viedenská cesta 3-7, 851 01 Bratislava	Mobile content provider	100%
Telekom Sec, s.r.o. ("Telekom Sec") Bajkalská 28, 817 62 Bratislava	Security services	100%

On 25 January 2018 the subsidiary of the Slovak Telekom PosAm acquired 100% share in the company Commander Services s.r.o. ("Commander Services") (Note 4).

All subsidiaries are incorporated in the Slovak Republic. Shares in the subsidiaries are not traded on any public market.

On 1 September 2013 the Group acquired 100% share capital and voting rights in DIGI.

On 29 January 2010 the Group acquired 51% of the share capital and voting rights in PosAm and obtained control of PosAm. The business combination was accounted for as if the acquirer had obtained a 100% interest in the acquiree due to existence of put & call options which, if triggered, may result in the transfer of the residual 49% equity interest in PosAm to Slovak Telekom. The Group concluded that terms of the transaction represent a contractual obligation to purchase the Group's equity instrument. The fair value of such liability (i.e. present value of the redemption amount) has been reclassified from equity (non-controlling interest) to financial liabilities (Note 23). Accordingly, the consideration transferred includes the present value of the liability related to the acquisition of 49% of PosAm under the put & call options. There is no time limitation in respect of put option obligation (Note 23) and the put option obligation is presented in current liabilities as the put option can be exercised on demand.

On 31 August 2005 the Group purchased 90% share of Zoznam and 100% share of Zoznam Mobile. On 30 June 2006 the Group acquired the remaining 10% share in Zoznam.

In 2017 the Group increased issued capital of Telekom Sec by EUR 60 thousand.

Members of the Statutory Boards at 31 December 2018

BOARD OF DIRECTORS

Chairman:
- Ing. Miroslav Majoroš

Vice-chairman:
- Guido Manfred Menzel (until 22 June 2018)
- Jose Severino Perdomo Lorenzo (since 1 July 2018)

Member:
- Daria A. Dodonova

SUPERVISORY BOARD

Chairman:
- Dr. Hans-Peter Schultz (until 28 May 2018)
- Danijela Bujič (since 1 June 2018)

Members:
- Ing. Denisa Herdová
- Dr. Henning Never
- Ing. Drahoslav Letko
- Konstantina Bata

Deutsche Telekom Europe B.V. with registered office at Stationsplein 8 K, Maastricht, the Netherlands is the parent of the Company.

Deutsche Telekom AG (“Deutsche Telekom” or “DT AG”), with its registered office at Friedrich Ebert Allee 140, Bonn, Germany, is the ultimate parent of the group of which the Company is a member and for which the group financial statements are drawn up. The ultimate parent’s consolidated financial statements are available at their registered office or at the District Court of Bonn HRB 6794, Germany.

2. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

This is the first set of the Group's annual financial statements in which IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have been applied. Changes to significant accounting policies are described in Note 2.20.

2.1 Basis of preparation

The financial statements have been prepared under the historical cost convention, except where disclosed otherwise.

The Group companies functional currency is the Euro ("EUR"), the financial statements are presented in Euros and all values are rounded to the nearest thousands, except where otherwise indicated.

The financial statements were prepared using the going concern assumption that the Group will continue its operations for the foreseeable future.

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.18.

Statement of compliance
These financial statements are the ordinary consolidated financial statements of the Group and have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations as adopted by the European Union ("IFRS"). The consolidated financial statements are available at the Company's registered office, on the internet page of the Company and in the public administration information system (the Register) administered by the Ministry of Finance of the Slovak Republic.

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 Company, using uniform accounting policies.

Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when it has power over the investee defined as existing rights that give it the ability to direct the relevant activities; is exposed, or has rights to variable returns from its involvement with the investee; and has the ability to affect those returns through its power over the investee. In most cases, control involves the Company owning a majority of the ordinary shares in the subsidiary (to which normal voting rights are attached). The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

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

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the assets transferred, shares issued or liabilities undertaken at the date of acquisition. The excess of the cost of acquisition over the fair value of the net assets and contingent liabilities of the subsidiary acquired is recorded as goodwill. The consideration payable includes the fair value of any asset or liability resulting from a contingent consideration arrangement. If the amount of contingent consideration (a liability) changes as a result of a post-acquisition event (such as meeting an earnings target), the change is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Put option on share held in subsidiary by minority shareholders is classified as financial liability. The corresponding amount is reclassified from equity (non-controlling interest). Subsequent measurement of the liability is at amortised cost in accordance with IAS 39.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Costs directly attributable to the acquisition are expensed.

All intra-group balances, transactions, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

2.2 Property and equipment

Property and equipment is initially measured at historical cost, excluding the costs of day-to-day servicing. The cost of property and equipment acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, property and equipment is carried at cost less any accumulated depreciation and provision for impairment, where required. The initial estimate of the costs of dismantling and removing the item of property and equipment and restoring the site on which it is located is also included in the costs, if the obligation incurred can be recognised as a provision according to IAS 37.

Historical cost includes all costs directly attributable to bringing the asset into working condition for its use as intended by the management. In case of network, costs comprise all expenditures, including internal costs directly attributable to network construction, and include contractors' fees, materials and direct labour. Costs of subsequent enhancement are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. Maintenance, repairs and minor renewals are charged to the income statement as incurred.

An item of property 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 (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included within other operating income or expense in the income statement in the period in which the asset is derecognised. Net disposal proceeds consist of both cash consideration and the fair value of non-cash consideration received.

Depreciation is calculated on a straight-line basis from the time the assets are available for use over their estimated useful lives. Depreciation charge is identified separately for each significant part of an item of property and equipment.

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

Buildings and masts	50 years
Other structures	8 to 30 years
Duct, cable and other outside plant	8 to 50 years
Telecommunications equipment	4 to 30 years
Radio and transmission equipment	5 to 8 years
Other property and equipment	13 months to 30 years

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

Residual values and useful lives of property and equipment are reviewed and adjusted in accordance with IAS 8, where appropriate, at each financial year-end. For further details on groups of assets influenced by the most recent useful life revisions refer to Note 2.18.

Property and equipment are reviewed for impairment whenever events or circumstances indicate that their carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. Impairment losses are reversed if the reasons for recognizing the original impairment loss no longer apply.

2.3 Intangible assets

Intangible assets acquired separately are recognised when control over them is assumed and are initially measured at historical cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and provision for impairment, where required. Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. With the exception of goodwill, intangible assets have a finite useful life and are amortised using the straight-line method over their estimated useful lives. The assets' residual values and useful lives are reviewed and adjusted in accordance with IAS 8, as appropriate, at each financial year-end. For further details on the groups of assets influenced by the most recent useful life revisions refer to Note 2.18.

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

Software	2 to 16 years
Telecommunications licences	8 to 22 years
Content licences	1 to 4 years
Customer relationships	12 to 15 years

Any gain or loss on derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and is included within other operating income or expense in the income statement in the period in which the asset is derecognised.

Software and licences
Development costs directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

a) it is technically feasible to complete the software product so that it will be available for use;
b) management intends to complete the software product and use or sell it;
c) there is an ability to use or sell the software product;
d) it can be demonstrated how the software product will generate probable future economic benefits;
e) adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
f) the expenditures attributable to the software product during its development can be reliably measured.

Directly attributable costs capitalised as part of a software product include software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet recognition criteria and costs associated with maintaining computer software programs are recognised as an expense as incurred.

Acquired software licences are capitalised on the basis of the costs incurred to acquire and bring to use specific software. Costs comprise all directly attributable costs necessary to create, produce and prepare the software to be capable of operating in a manner intended by the management, including enhancements of applications in use.

Costs associated with the acquisition of long term frequency licences are capitalised. Useful lives of concessions and licences are based on the underlying agreements and are amortised on a straight-line basis over the period from availability of the frequency for commercial use until the end of the initial concession or licence term. No renewal periods are considered in the determination of useful life. Recurring licence fees paid for key telecommunications licences may be subject to change and therefore cannot be reliably estimated over the duration of the licence term and are recognised as other operating costs in the period they relate to. Recurring licence fees are paid during whole period of granted licence.

The Group accounts for content licences as intangible assets if there is unavoidable obligation to pay for the content rights, there are no doubts that the content will be delivered and the cost can be reliably estimated. Acquired content licences are shown at historical cost. If there is no fixed price defined in the contract, the Group uses best estimate to assess the fee during the contracted period. The useful lives of content licences are based on the underlying agreements and are amortised on a straight-line basis over the period from availability for commercial use until the end of the licence term which is granted to the Group.

Goodwill
Goodwill arises on the acquisition of subsidiaries and represents an excess of consideration transferred over Group's interest in net fair value of the net identifiable assets acquired, liabilities and contingent liabilities of the acquiree and the fair value of non-controlling interest in the acquiree. Following initial recognition, goodwill is carried at cost less any accumulated impairment losses. Goodwill is not amortised but it is reviewed for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired (Note 14). Carrying value of goodwill is compared to its recoverable amount, which is the higher of value in use and fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed. Fair values less costs to sell of cash-generating units with allocated goodwill tested for impairment are in Level 3 of the fair value hierarchy.

2.4 Impairment of non-financial assets

An impairment loss is the amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or circumstances indicate that their carrying amount may not be recoverable. Assets with indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested for impairment annually. Impairment losses for each class of asset are disclosed within depreciation, amortisation and impairment losses in the income statement. Reversals of impairment losses are disclosed within other operating income in the income statement.

For the purpose of assessing impairment, assets are grouped into cash-generating units, representing the smallest groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Group determines the recoverable amount of a cash-generating unit on the basis of fair value less costs of disposal. The calculation is determined by reference to discounted cash flows calculations. These discounted cash flows calculations are based on financial budgets approved by management, usually covering a ten or four-year period. Cash flows beyond the detailed planning periods are extrapolated using appropriate growth rates. Key assumptions on which management bases the determination of fair value less costs of disposal include average revenue per user, customer acquisition and retention costs, churn rates, capital expenditures, market share, growth rates and discount rates. Discount rates reflect risks specific to the cash-generating unit. Cash flows reflect management assumptions and are supported by external sources of information. This is highly judgmental, which carries the inherent risk of arriving at materially different recoverable amounts if estimates used in the calculations proved to be inappropriate.

If carrying amount of a cash-generating unit to which the goodwill is allocated exceeds its recoverable amount, goodwill allocated to this cash-generating unit is reduced by the amount of the difference. If an impairment loss recognised for the cash-generating unit exceeds the carrying amount of the allocated goodwill, the additional amount of the impairment loss is recognised through pro rata reduction of the carrying amounts of assets allocated to the cash-generating unit. Impairment losses on goodwill are not reversed.

In addition to the general impairment testing of cash-generating units, the Group also tests individual assets if their purpose changes from being held and used to being sold or otherwise disposed of. In such circumstances the recoverable amount is determined by reference to fair value less costs to sell.

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 synergies of 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 purposes.

Impairment is determined by assessing the recoverable amount of cash-generating unit to which the goodwill relates. For more details on impairment of goodwill refer to Note 14.

2.5 Inventories

Cost of inventories comprises all the costs of purchase and other costs incurred in bringing the inventories to their present location and condition, including customs, transportation and similar costs. Inventories are stated at the lower of cost and net realizable value. Cost of inventory is determined on the weighted average basis. Net realizable value is the estimated selling price in the ordinary course of business, less estimated selling expenses. An allowance is created against slow-moving and obsolete inventories.

Phone set inventory impairment allowances are recognised immediately when the phone sets are no longer marketable to secure subscriber contractual commitment or if the resale value on a standalone basis (without the subscriber commitment) is lower than cost.

2.6 Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand and short-term deposits with original maturity of three months or less from the date of acquisition.

For the purpose of the statement of cash flows, cash and cash equivalents are net of bank overdrafts. In the statement of financial position, bank overdrafts are included in borrowings in current liabilities.

2.7 Financial assets

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Trade receivables and debt securities issued by a debtor to the Group are initially recognised when they are originated. All other financial assets are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price determined under IFRS 15.

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

The Group has all financial assets classified and measured at amortised cost.

Financial assets at amortised cost (debt instruments)
This is the only category relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

The Group's financial assets at amortised cost include Trade and other receivables, Cash and cash equivalents, Term deposits and Loans in the statement of financial position. Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost.

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

2.8 Impairment of financial assets

The Group recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost and contract assets. Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. For lease receivables, contract assets and trade receivables with a significant financing component, an entity can choose as an accounting policy either to apply the general model for measuring loss allowance or always to measure the loss allowance at an amount equal to the lifetime ECL. The Company has chosen the latter policy.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics. In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends. Indicators used for analysing forward looking estimates, were chosen based on best practice relevant for telecommunication industry.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease is related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

2.9 Financial liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments.

Trade and other payables
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are initially measured at fair value. After initial recognition trade and other payables are measured at amortised cost using the effective interest rate method.

2.10 Prepaid expenses

The Group has easement rights to use and access technological equipment sited in properties owned by third parties. These easements are presented within prepaid expenses in the statement of financial position. Easements are initially recognised at their net present value and amortised over their expected duration. Amortisation of easement rights is presented within other operating costs in the income statement.

2.11 Provisions and contingent liabilities

Provisions for asset retirement obligations, restructuring costs and legal and regulatory claims 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 the amount has been reliably estimated.

If the effect of the time-value of money is material, provisions are discounted using a risk-adjusted, pre-tax discount rate. Where discounting is used, the increase in the provision due to the passage of time is recognised as a financial expense.

No provision is recognised for contingent liabilities. A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Asset retirement obligations
Asset retirement obligations relate to future costs associated with the retirement (dismantling and removal from use) of non-current assets. The obligation is recognised in the period in which it has been incurred and it is considered to be an element of cost of the related non-current asset in accordance with IAS 16. The obligation is measured at present value, and it is depreciated over the estimated useful life of the related non-current asset. Upon settlement of the liability, the Group either settles the obligation for its recorded amount or incurs a gain or loss upon settlement.

2.12 Employee benefit obligations

Retirement and other long-term employee benefits
The Group provides retirement and other long-term benefits under both defined contribution and defined benefit plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into separate publicly or privately administered entities on a mandatory, contractual or voluntary basis. Once the contributions have been paid, the Group has no further payment obligations. The contribution is 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.

The Group also provides defined retirement and jubilee benefit plans granting certain amounts of pension or jubilee payments that an employee will receive on retirement, usually dependant on one or more factors such as an age, years of service and compensation. These benefits are unfunded. The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The last calculation was prepared on 31 December 2018. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using discount rate of weighted-average yields for high-quality (Bloomberg Aa*) - non-cancellable, non-putable corporate bonds. The currency and term of the bonds are broadly consistent with the currency and estimated term of the benefit obligations. Past service costs are recognised immediately in income statement.

Remeasurement gains and losses arising from experience-based adjustments and changes in actuarial assumptions are recognised in the period in which they occur within other comprehensive income for retirement benefits and within the income statement for jubilee benefits. Current service cost, past service cost and curtailment gain are included within wages and salaries under staff costs. Interest costs are included within financial expense.

Termination benefits
Employee termination benefits are recognised in the period in which is the Group demonstrably committed to a termination without possibility of withdrawal, i.e. the management defines and authorises a detailed plan listing the number and structure of employees to be discharged and announces it to the trade unions. Expenses related to termination benefits are disclosed within staff costs in the income statement.

2.13 Revenue recognition

Revenue is recognised when the Group satisfies a performance obligation by transferring a promised good or service to a customer, who obtains control of that asset that means upon the delivery of services and products and customer's acceptance. Revenue from rendering of services and from sales of equipment is shown net of value added tax and discounts. Revenue is measured at the amount of transaction price that is allocated to the performance obligation.

The Group recognises revenue as follows:

The Group provides customers with narrow and broadband access to its fixed, mobile and TV distribution networks. Service revenue is recognised when the services are provided in accordance with contractual terms and conditions. Airtime revenue is recognised based upon minutes of use and contracted fees less credits and adjustments for discounts, while subscription and flat rate revenue is recognised in the period they relate to.

Revenue from prepaid cards is recognised when credit is used by a customer or after period of limitation when unused credit elapsed.

Interconnect revenue generated from calls and other traffic that originates in other operators' networks is recognised as revenue at the time when the call is received in the Group's network. The Group 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. Revenue from interconnect is recognised gross.

Content revenue is recognised gross or net of the amount due to a content provider. Depending on the nature of relationship with the content provider, gross presentation is used when the Group acts as a principal in the transaction with a final customer. Content revenue is recognised net, if the Group acts as an agent; i.e. the content provider is responsible for service content and the Group does not assume risks and rewards of ownership.

In the case of multiple-element arrangements (e.g. mobile contract plus handset) with subsidised products delivered in advance, the transaction price is allocated to the performance obligations in the contract by reference to their relative standalone selling prices. Standalone selling prices of hardware are estimated using price list prices adjusted by margin haircut. Standalone selling prices of service are estimated using average transaction prices adjusted by margin haircut. As a result a larger portion of the total consideration is attributable to the component delivered in advance (mobile handset), requiring earlier recognition of revenue. This leads to the recognition of what is known as a contract asset – a receivable arising from the customer contract that has not yet legally come into existence – in the statement of financial position.

Some one-time fees (mainly activation fees which are generally paid at contract inception) not fulfil definition of a separate performance obligation but represent a prepayment on future services. Such one-time fees and advanced payments for post-paid services lead to recognition of contract liability which is recognised as revenue appropriately to the minimum contract term. When discounts on service fees are granted unevenly for specific months of a contract while monthly service is provided evenly to the customer, service revenues are recognised on a straight-lined basis.

In accordance with IFRS 15, constant monthly revenue amounts shall be recognized in a contract where performance over the months is constant. One or more discounts on service may be given for one or multiple periods. The discount period can start at the beginning or at a later point in time of the contract term. Additionally discounts may also be granted in stages, meaning that the discount size varies over the minimum contract term. In order to guarantee continuity, straightlining of the discount during minimum contract term is required. This takes place by recognizing a contract asset, which is to be set up over the period with smaller payments and amortized over the remaining contract term.

The customer can be granted budgets for purchasing future goods and services either at contract inception or in the future by signing a frame contract which guarantees monthly minimum payment to the entity. The budget can be redeemed for hardware purchases and/or new services within the redemption period of the frame contract. A contract liability is created on a monthly basis until the budget is used. At the point of redemption revenue is realised in the amount of the relative standalone selling price of the material right.

Commision costs are assessed as incremental cost of obtaining a contract and are recognised as Contract costs. Contract costs are amortised during estimated customer retention period within dealers commision under other operating costs (related to indirect sales channel) and within wages and salaries under staff costs (related to direct sales channel).

The Group considers the effects of variable consideration and financing component as insignificant.

The Group typically satisfied its performace obligations at the point in time (mainly sales of equipment) and over time (services). The Group has no unusual payment terms.

Revenue from sales of equipment is recognised when control of that equipment is transferred to a customer and when the equipment delivery and installation is completed. Completion of an installation is a prerequisite for transfer of control on such equipment where installation is not simple in nature and functionally constitutes a significant component of the sale.

Revenue from operating leases of equipment is recognised on a straight-line basis over lease period.

System solutions / IT revenue
Contracts on network services, which consist of installations and operations of communication networks for customers, have an average duration of 2 to 3 years. Revenue from voice and data services is recognised under such contracts when voice and data are used by a customer. Revenue from system integration contracts comprising delivery of customised products and/or services is recognised when the control of that customised complex solution is transferred to a customer (solution is delivered to and accepted by a customer). Contracts are usually separated into distinct milestones which indicate completion, delivery and acceptance of a defined project phase. Upon completion of a milestone the Company is entitled to issuing an invoice and to a payment.

Revenue from maintenance services (generally a fixed fee per month) is recognised over time (during contractual period) or at point in time (when the services are completed). Revenue from repairs, which are not part of the maintenance contract but are billed on a basis of time and material used, is recognised when the services are provided.

Revenue from sale of hardware (including terminal equipment) and software is recognised when the control of that asset is transferred to a customer, provided there are no unfulfilled obligations that affect customer's final acceptance of the arrangement.

Interest and dividends
Interest income is recognised using the effective interest rate method. When a loan or receivable is impaired, the Group reduces its carrying amount to a recoverable amount. Recoverable amount is determined as an estimate of future cash flows discounted at the original effective interest rate of the instrument. Dividend income is recognised when the right to receive payment is established.

2.14 Leases

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

Leases in which significant portion of risks and rewards of ownership are 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 lease period.

When operating lease is terminated before the lease period has expired, any penalty payment to the lessor is recognised in income statement in the period in which the termination took place.

Contracts are analysed based on the requirements of IFRIC 4, and if they include embedded lease elements, revenue or income attributable to these is recognised in accordance with IAS 17.

Operating lease – the Group as lessor
Assets leased to customers under operating leases are included in property and equipment in the statement of financial position. They are depreciated over their expected useful lives on a basis consistent with similar assets. Rental income is recognised as revenue or other operating income on a straight-line basis over the lease term.

Operating lease – the Group as lessee
Costs of operating leases are charged to the income statement on a straight-line basis over the lease term.

Finance lease – the Group as lessor
Leases of assets where the Group transfers substantially all the risks and rewards of ownership are recognised and disclosed as revenue against finance lease receivable. The revenue equals to the estimated present value of future minimum lease payments receivable and any unguaranteed residual value (net investment in the lease). Costs of asset sold in finance lease transactions are recognised at the commencement of the lease. Each lease receipt is then allocated between lease receivable and interest income.

Finance lease – the Group as lessee
Leases of assets where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases. The finance lease obligations are included in the statement of financial position in trade and other payables.

2.15 Operating profit

Operating profit is defined as a result before income taxes and financial income and expenses. For financial income and expenses refer to Notes 9 and 10 respectively.

2.16 Foreign currency translation

Transactions denominated in foreign currencies are translated into functional currency using exchange rates prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into functional currency using the exchange rates prevailing at the statement of financial position date. All foreign exchange differences are recognised within financial income or expense in the period in which they arise.

2.17 Taxes

Tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, tax is also recognised in other comprehensive income or directly in equity, respectively.

Current income tax
Current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted as of the statement of financial position date. Current income tax includes additional levy imposed by the Slovak government on regulated industries effective from 1 September 2012. From 2017, the levy of 8.712% per annum is applied on the basis calculated as the profit before tax determined in accordance with the Slovak Accounting Standards multiplied by ratio of regulated revenues (according to Act on Electronic Communications Nr. 351/2011) on total revenues.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities.

Deferred tax
Deferred tax is calculated at the statement of financial position date using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts.

Deferred taxes are recognised for all taxable and deductible temporary differences, except for the deferred tax arising 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 nor taxable profit or loss.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.18 Significant accounting judgements, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent liabilities reported at the end of the period and the reported amounts of revenue and expenses for that period. Actual results may differ from these estimates.

In the process of applying the Group's accounting policies, management has made the following judgements, estimates and assumptions which have the most significant effect on the amounts recognised in the financial statements:

Useful lives of non-current assets
The estimation of the useful lives of non-current assets is a matter of judgement based on the Group's experience with similar assets. The Group reviews the estimated remaining useful lives of non-current assets annually. 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 depreciation or amortisation period, as appropriate, and are treated as changes in accounting estimates. Management's estimates and judgements are inherently prone to inaccuracy, in particular for those assets for which no previous experience exists.

The Group reviewed useful lives of non-current assets during 2018 and changed accounting estimates where appropriate. The table summarizes net (increase) or decrease in depreciation or amortisation charge for the following categories of non-current assets:

thousands of EUR	2018	2019	2020	2021	2022 and after
Telecommunications equipment	(242)	228	3	3	8
Radio and transmission equipment	(19)	5	4	3	7
Customer premises equipment	1,835	923	(153)	(1,270)	(1,335)
Other	(769)	51	26	(57)	749
	805	1,207	(120)	(1,321)	(571)

Customer relationships
The Group maintains record of customer relationships obtained during the acquisition of control of T-Mobile, DIGI and PosAm (Note 13) and regularly evaluates appropriateness of useful lives used to amortise these intangible assets on the basis of churn of customers acquired through the business combinations. No changes to useful lives were necessary in 2018. Customer relationships related to T-Mobile acquisition were fully amortised during 2017.

Assessment of impairment of goodwill
Goodwill is tested annually for impairment as further described in Note 2.4 using estimates detailed in Note 14.

Asset retirement obligation
The Group enters into lease contracts for land and premises on which mobile communication network masts are sited. The Group is committed by these contracts to dismantle the masts and restore the land and premises to their original condition. Management anticipates the probable settlement date of the obligation to equal useful life of mast, which is estimated to be 50 years. The remaining useful life of masts ranges from 25 to 50 at 31 December 2018.

Management's determination of the amount of the asset retirement obligation (Note 22) involves the following estimates (in addition to the estimated timing of crystallisation of the obligation):

a) an appropriate risk-adjusted, pre-tax discount rate commensurate with the Group's credit standing;
b) the amounts necessary to settle future obligations;
c) inflation rate.

If probable settlement date of the obligation was shortened by 10 years (from 50 years to 40 years) it would cause an increase of asset retirement obligation by EUR 2,737 thousand. If the inflation rate increased by 0.5%, it would cause an increase of asset retirement obligation by EUR 3,207 thousand. If the risk-adjusted, pre-tax discount rate increased by 0.5%, it would cause a decrease of asset retirement obligation by EUR 2,638 thousand. If the amounts necessary to settle future obligations increased by 10%, it would cause an increase of asset retirement obligation by EUR 1,606 thousand.

Provisions and contingent liabilities
The Group is a participant in several lawsuits and regulatory proceedings. When considering the recognition of a provision, management judges the probability of future outflows of economic resources and its ability to reliably estimate such future outflows. If these recognition criteria are met a provision is recorded in the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Such judgments and estimates are continually reassessed taking into consideration the developments of the legal cases and proceedings and opinion of lawyers and other subject matter experts involved in resolution of the cases and proceedings. The factors considered for individual cases are described in Notes 22 and 28.

2.19 Comparatives

Income from material sold is presented brutto in 2018 financial statements (income from material sold is presented within Other operating income, cost of material sold is presented within Other operating costs). In 2017 financial statements income from material sold was presented netto, within Other operating income (EUR 1,064 thousand). This comparative information has been changed in order to conform to the current year presentation and in accordance with IAS 1.38 for the purpose of comparability of data and reported periods.

The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. It has applied IFRS 15 using the modified retrospective method, under which the comparative information is not restated. It has also taken advantage of the exemption from restating prior periods in respect of IFRS 9's classification and measurement (including impairment) requirements.

Adoption of IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15 and IFRS 9, the Group has adopted the new rules retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application as an adjustment to the opening balance of retained earnings as at 1 January 2018.

In summary, the following adjustments were made to the amounts recognised in the statement of financial position at the date of initial application (1 January 2018):

thousands of EUR	IAS 18 Carrying amount 31 December 2017	IFRS 15 Reclassification	IFRS 15 Remeasurements	IFRS 9 Remeasurements	IFRS 15 Carrying amount 1 January 2018
Non-current assets					
Prepaid expenses and other assets	13,685	(164)	(2,276)	-	11,245
Contract assets	-	-	20,857	-	20,857
Contract costs	-	164	5,501	-	5,665
Current assets					
Trade and other receivables	111,063	-	-	(2,955)	108,108
Prepaid expenses and other assets	9,079	(476)	(1,184)	-	7,419
Contract assets	-	-	47,147	-	47,147
Contract costs	-	476	15,690	-	16,166
Equity					
Retained earnings and profit for the year	81,671	-	54,471	(2,334)	133,808
Non-current liabilities					
Contract liabilities	-	743	4,145	-	4,888
Other liabilities and deferred income	5,589	(743)	(4,410)	-	436
Deferred tax	86,059	-	14,480	(621)	99,918
Current liabilities					
Contract liabilities	-	32,544	19,339	-	51,883
Other liabilities and deferred income	73,076	(32,544)	(2,290)	-	38,242

IFRS 9 remeasurement related to Trade and other receivables of EUR 2,955 thousand consists of change in standard receivables (EUR 1,693 thousand) and change in receivables from contract penalties (EUR 1,262 thousand).

Reconciliation of opening balance of retained earnings and profit for the year:

thousands of EUR	
Retained earnings as of 31 December 2017	81,671
Impact of IFRS 9	(2,955)
Impact of IFRS 15	68,951
Deferred tax related to IFRS 9 and IFRS 15	(13,859)
Opening retained earnings 1 January 2018	133,808

Amounts of adjustments related to application of IFRS 15 and IFRS 9 as at 31 December 2018 for each financial statements lines affected are as follows:

thousands of EUR	2018	IFRS 15 Reclassification	IFRS 15 Remeasurements	IFRS 9 Remeasurements	2018 without IFRS 15 and IFRS 9
Statement of financial position					
Noncurrent assets					
Prepaid expenses and other assets	11,192	31	1,232	-	12,455
Contract assets	23,727	-	(23,727)	-	-
Contract costs	5,213	(31)	(5,182)	-	-
Current assets					
Trade and other receivables	108,190	-	-	5,584	113,774
Prepaid expenses and other assets	14,790	133	1,972	-	16,895
Contract assets	47,702	-	(47,702)	-	-
Contract costs	15,158	(133)	(15,025)	-	-
Equity					
Retained earnings and profit for the year	179,988	-	(54,830)	6,757	131,915
Noncurrent liabilities					
Contract liabilities	4,704	(948)	(3,756)	-	-
Other liabilities and deferred income	242	948	3,199	-	4,389
Deferred tax	94,688	-	(14,619)	(1,173)	78,896
Current liabilities					
Contract liabilities	53,552	(32,720)	(20,832)	-	-
Other liabilities and deferred income	37,870	32,720	2,406	-	72,996

thousands of EUR	2018	IFRS 15 Remeasurement	IFRS 9 Remeasurement	2018 without IFRS 15 and IFRS 9
Income statement				
Revenues	767,242	(3,098)	1,216	765,360
Staff costs - Wages and salaries	(102,027)	(154)	-	(102,181)
Other operating costs - Bad debt expense	(8,642)	1,872	1,413	(5,357)
Other operating costs - Dealers commissions	(22,599)	719	-	(21,880)
Deferred tax income	6,448	139	(552)	6,035
Loss / (profit) for the year		(522)	2,077	

2.20 Adoption of IFRS during the year

Standards, interpretations and amendments to published standards effective for the Group's accounting period beginning on 1 January 2018

- IFRS 9, Financial Instruments (as revised in July 2014, effective for annual periods beginning on or after 1 January 2018). The standard includes a model for classification and measurement, a single, forward-looking "expected loss" impairment model and substantially reformed approach to hedge accounting.
- IFRS 15, Revenue from Contracts with Customers (issued in May 2014, effective for annual periods beginning on or after 1 January 2018). The standard replaced IAS 18 which covered contracts for goods and services and IAS 11 which covered construction contracts. The IFRS 15 standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

For impact of application of standards IFRS 9 and IFRS 15 please refer to Note 2.19. The other amended standards and interpretations do not have a significant impact on the Groups's financial statements.

Standards, interpretations and amendments to published standards that have been published, are not effective for accounting periods starting on 1 January 2018 and which the Group has not early adopted

- IFRS 16 Leases, issued in January 2016 and effective for annual periods beginning on or later 1 January 2019, with earlier application permitted (as long as IFRS 15 is also applied).

  - It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. Each lease payment will be allocated between the liability and finance cost. The finance cost will be charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset will be depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

  - In the same way are treated also leases with a lease term up to 12 months and low-value leases, even though the standard permits exceptions for short-term and low-value leases. In compliance with the Group policy this exemption is not applied and the Group has a unified approach for all leases to avoid misleading accounting.
    IFRS 16 provides also practical expedient that permits lessees to make an accounting policy election, by class of underlying asset, to account for each separate lease component of a contract and any associated non-lease components as a single lease component. The Group will apply this practical expedient (accounting policy election), and therefore non-lease components which are fixed and paid to lessor, e.g. utilities, maintenance costs, insurance services, etc. will not be separated, but capitalised.

  - The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The Group leases various properties, technical infrastructure, equipment and cars. The standard will affect primarily the accounting for operating leases where a Group is a lessee.

  - As at the reporting date, the Group has non-cancellable operating lease commitments of EUR 56.9 million, see Note 26. For the remaining lease commitments the Group expects to recognise right-of-use assets of approximately EUR 110 million on 1 January 2019 and lease liabilities of EUR 101 million, (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018). Overall net assets will be approximately EUR 9 million higher, and net current assets will be EUR 17 million lower due to the presentation of a portion of the liability as a current liability.
    The Group expects that net profit after tax will decrease by approximately EUR 2.5 million for 2019 as a result of adopting the new rules.

  - Operating cash flows will increase and financing cash flows decrease by approximately EUR 15 million as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

  - The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply modified retrospective approach and will not restate comparative amounts for the year prior to first adoption. Instead, the Group will provide an explanation of the reasons for the changes in items in the statement of financial position and the income statement for the current period as a result of applying IFRS 16 for the first time. All right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

The other amended standards and interpretations are not expected to have a significant impact on the Group's financial statements.

2.21 Accounting policies before 1 January 2018

Accounting policies applicable to the comparative period ended 31 December 2017 that were amended by IFRS 9 and IFRS 15, are as follows.

2.21.1 Financial assets

The Group classifies its financial assets as: loans and receivables, financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end. Regular purchases and sales of financial assets are recognised on the trade date – the date on which the Group commits to purchase or sell the asset. When financial assets are recognised, they are initially measured at fair value, plus, in case of investments not held at fair value through profit or loss, directly attributable transaction costs. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement.

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the asset have expired or the Group has transferred its rights to receive cash flows from the asset and has transferred substantially all the risks and rewards of the ownership.

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Trade receivables are amounts due from customers for services performed or merchandise sold in the ordinary course of business. Trade and other receivables are included in current assets, except for maturities greater than 12 months after the financial year-end. These are classified as non-current assets. Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest rate method, less allowance for impairment. For the purpose of impairment evaluation, trade receivables are grouped together on the basis of similar credit risk characteristics, tested collectively for impairment and written down, if necessary. The amount of impairment loss recognised is the difference between the asset´s carrying amount and present value of estimated future cash flows which are based on the past experience of the collectability of overdue receivables. Allowance for impairment reflects the estimated credit risk.

When a trade receivable for which an allowance was recognised becomes uncollectible or sold, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised within other operating income in the income statement.

Amounts payable to and receivable from the same international telecommunication operators are shown net in the statement of financial position when a legally enforceable right to set-off exists and the Group intends to settle them on a net basis.

Finance lease receivables
Where Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins), using a discount rate determined at inception. The difference between the gross receivable and the present value represents unearned finance income which is recognised over the term of the lease using the effective interest rate method.

2.21.2 Impairment of financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Impairment losses of financial assets reduce their carrying amount and are recognised in the income statement against allowance accounts. Upon derecognition of a financial asset the net carrying amount includes any allowance for impairment. Any gains or losses on derecognition are calculated as the difference between the proceeds from disposal and the net carrying amount and are presented in the income statement.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

2.21.3 Financial liabilities

There are two measurement categories for financial liabilities used by the Group: financial liabilities carried at amortised costs represented by trade and other payables and financial liabilities at fair value through profit or loss. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Trade and other payables
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are initially measured at fair value. After initial recognition trade and other payables are measured at amortised cost using the effective interest rate method.

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

The Group does not apply hedge accounting in accordance with IAS 39 for its financial instruments, therefore all gains and losses are recognised in the income statement within financial income or financial expense.

2.21.4 Revenue recognition

Revenue is recognised upon the 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; the revenue can be measured reliably and when specific criteria as stated below have been met. Revenue from rendering of services and from sales of equipment is shown net of value added tax and discounts. Revenue is measured at the fair value of consideration received or receivable.

The Group recognises revenue as follows:

The Group provides customers with narrow and broadband access to its fixed, mobile and TV distribution networks. Service revenue is recognised when the services are provided in accordance with contractual terms and conditions. Airtime revenue is recognised based upon minutes of use and contracted fees less credits and adjustments for discounts, while subscription and flat rate revenue is recognised in the period they relate to.

Revenue from prepaid cards is recognised when credit is used by a customer or after period of limitation when unused credit elapsed.

Interconnect revenue generated from calls and other traffic that originates in other operators' networks is recognised as revenue at the time when the call is received in the Group's network. The Group 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. Revenue from interconnect is recognised gross.

Content revenue is recognised gross or net of the amount due to a content provider. Depending on the nature of relationship with the content provider, gross presentation is used when the Group acts as a principal in the transaction with a final customer. Content revenue is recognised net, if the Group acts as an agent; i.e. the content provider is responsible for service content and the Group does not assume risks and rewards of ownership.

Revenue from multiple revenue arrangements 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. When separable components have been identified, an amount received or receivable from a customer is allocated to individual deliverables based on each component's fair value. Amount allocable to a delivered item(s) is limited to the amount that is not contingent upon the delivery of additional items or meeting other specified performance conditions (the non-contingent amount). The revenue relating to the item(s) is recognised when risks and rewards are transferred to the customer which occurs on delivery. Revenue relating to the service element is recognised on a straight-line basis over the service period.

Revenue from sales of equipment is recognised when the equipment is delivered and installation is completed. Completion of an installation is a prerequisite for recognizing revenue on such sales of equipment where installation is not simple in nature and functionally constitutes a significant component of the sale.

Revenue from operating leases of equipment is recognised on a straight-line basis over lease period.

System solutions / IT revenue
Contracts on network services, which consist of installations and operations of communication networks for customers, have an average duration of 2 to 3 years. Revenue from voice and data services is recognised under such contracts when voice and data are used by a customer. Revenue from system integration contracts comprising delivery of customised products and/or services is recognised when the customised complex solution is being delivered and accepted by a customer. Contracts are usually separated into distinct milestones which indicate completion, delivery and acceptance of a defined project phase. Upon completion of a milestone the Group is entitled to issuing an invoice and to a payment.

Revenue from maintenance services (generally a fixed fee per month) is recognised over the contractual period or when the services are provided. Revenue from repairs, which are not part of the maintenance contract but are billed on a basis of time and material used, is recognised when the services are provided.

Revenue from sale of hardware (including terminal equipment) and software is recognised when risks of ownership are substantially transferred to a customer, provided there are no unfulfilled obligations that affect customer's final acceptance of the arrangement.

Interest and dividends
Interest income is recognised using the effective interest rate method. When a loan or receivable is impaired, the Group reduces its carrying amount to a recoverable amount. Recoverable amount is determined as an estimate of future cash flows discounted at the original effective interest rate of the instrument. Dividend income is recognised when the right to receive payment is established.

2.21.5 Significant accounting judgements, estimates and assumptions related to activation fees, subscriber acquisition and retention costs

The Group defers activation, non-refundable up-front fees in cases when the delivery of products or rendering of services does not present a separate earnings process and the activation fees are not offset by a delivered product or rendered services. This period is estimated on a basis of an anticipated term of customer relationship under the arrangement which generated the activation fee. The estimated customer relationship period is reassessed at each financial year-end. Costs incurred in direct relation to customer activation (such as SIM card costs and commissions) are deferred to the extent of activation revenue and amortised in the same manner as the activation fees. Other subscriber acquisition costs, which primarily include losses on subsidised handsets and hardware, are expensed as incurred.

3. FINANCIAL RISK MANAGEMENT

The Group is exposed to a variety of financial risks. The Group's risk management policy addresses the unpredictability of financial markets and seeks to minimize potential adverse effects on the performance of the Group.

The Group's financial instruments include cash and cash equivalents, loans and term deposits. The main purpose of these instruments is to manage the liquidity of the Group.

The Group has various other financial assets and liabilities such as trade and other receivables and trade and other payables which arise from its operations.

The main risks arising from the Group's financial instruments are market risk, credit risk and liquidity risk. The Treasury is responsible for financial risk management, in accordance with guidelines approved by the Board of Directors and the Deutsche Telekom Group Treasury. The Treasury works in association with the Group's operating units and with the Deutsche Telekom Group Treasury. There are policies in place to cover specific areas, such as market risk, credit risk, liquidity risk and the investment of excess funds.

3.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign currency risk, interest rate risk and other price risk.

3.1.1 Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of change in foreign exchange rates.

The Group is exposed to transactional foreign currency risk arising from international interconnectivity. In addition, the Group is exposed to risks arising from capital and operational expenditures denominated in foreign currencies.

For all planned, but not yet determined, foreign currency denominated cash flows (uncommitted exposure) of the following 12 months (rolling 12 month approach) a hedging ratio of at least 50% is applied. The Group uses term deposits in foreign currencies to hedge these uncommitted exposures (Note 18).

Short-term cash forecasts are prepared on a rolling basis to quantify the Group's expected exposure. The Group's risk management policy requires the hedging of every cash flow denominated in foreign currency exceeding the equivalent of EUR 250 thousand.

The Group's foreign currency risk relates mainly to the changes in USD foreign exchange rates, with immaterial risk related to financial assets and financial liabilities denominated in other foreign currencies.

The following table details the sensitivity of the Group's profit before tax and equity to a 10% increase/decrease in the USD against EUR, with all other variables held as constant. The 10% change represents management's assessment of the reasonably possible change in foreign exchange rate and is used when reporting foreign currency risk internally in line with treasury policies.

thousands of EUR		2018	2017
Profit before tax	Depreciation of USD by 10%	(115)	(265)
	Appreciation of USD by 10%	115	265
Equity	Depreciation of USD by 10%	(91)	(210)
	Appreciation of USD by 10%	91	210

3.1.2 Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group entered into a master agreement with DT AG in October 2008 based on which the Group provided loans to DT AG. Currently, there is outstanding loan in amount of EUR 217,000 thousand (2017: EUR 183,000 thousand) at fixed interest rate (Note 19). The term deposits in banks outstanding at 31 December 2018 in the amount of EUR 3,432 thousand (2017: EUR 6,336 thousand) have been concluded with fixed interest rate (Note 18). The Group has no material financial instruments with variable interest rates as at 31 December 2018.

3.1.3 Other price risk

Other price risk arises on financial instruments because of changes in commodity prices or equity prices. However, there are no such financial instruments that would have been materially impacted from changes in commodity prices.

3.2 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Group is exposed to credit risk from its operating activities and certain financing activities. 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 the credit ratings assigned to these institutions by reputable rating agencies and these limits are reviewed on a regular basis. The Group is exposed to concentration of credit risk from holding loan receivable in the amount of EUR 217,000 thousand (2017: EUR 183,000 thousand) provided to DT AG (Germany) and trade receivables from DT AG and other entities in DT group in amount of EUR 13,783 thousand (2017: EUR 11,291 thousand).

For credit ratings see the following tables:

thousands of EUR	2018	2017
Term deposits (Note 18)		
A2	3,432	6,336
	3,432	6,336

thousands of EUR	2018	2017
Loans (Note 19)		
Baa1	217,000	183,000
	217,000	183,000

thousands of EUR	2018	2017
Cash and cash equivalents (Note 20)		
Aa3	100	1,707
A2	26,988	44,664
A3	45,493	30,011
Baa1	-	355
Not rated	626	588
	73,207	77,325

Further, counterparty credit limits and maximum maturity can be decreased based on recommendation by Deutsche Telekom Group Treasury in order to manage bulk risk steering of Deutsche Telekom Group. Group credit risk steering takes into account various risk indicators including, but not limited to CDS level, rating and negative movement of the share price of the counterparty.

IFRS 9 introduced a new, expected-loss impairment model that requires more timely recognition of expected credit losses. Specifically, the Standard requires entities to account for expected credit losses rather than only incurred credit losses as was the case under IAS 39. The Group establishes an allowance for impairment that represents its estimate of expected credit losses in respect of trade, other receivables and contract assets. Cash and cash equivalents and intercompany receivables are also subject to the impairment requirements of IFRS 9, however, the identified impairment loss was immaterial.

Impairment losses are recognised to cover both individually significant credit risk exposures and a collective loss component for assets that are assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables includes the Group's past experience of collecting payments, changes in the internal and external ratings of customers, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

In respect of financial assets, which comprise cash and cash equivalents, loans, term deposits, trade and other receivables, the Group's exposure to credit risk arises from the potential default of the counterparty, with a maximum exposure equal to the carrying amount of these financial assets.

The Group assesses its financial investments at each reporting date to determine whether there is any objective evidence that they are impaired. A financial investment is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that investment. Significant financial investments are tested for impairment on an individual basis. The remaining financial investments are assessed collectively in groups that share similar credit risk characteristics. An impairment loss in respect of a financial investment is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. The reversal of the impairment loss is recognised in profit or loss.

The table summarises the ageing structure of receivables based on IFRS 9:

		Past due					
thousands of EUR	Not past due	< 30 days	31-90 days	91-180 days	181-365 days	> 365 days	Total
At 31 December 2018							
Trade and other receivables	93,850	4,603	3,747	1,625	1,407	4,352	109,584

The table summarises the ageing structure of receivables in 2017 based on IAS 39:

		Past due but not impaired						
thousands of EUR	Neither past due nor impaired	< 30 days	31-90 days	91-180 days	181-365 days	> 365 days	Impaired	Total
k 31. decembru 2017								
Trade and other receivables	94,643	850	206	563	1,086	1,972	13,389	112,709

No significant individually impaired trade receivables were included in the allowance for impairment losses in 2018 and 2017.

Trade receivables that are past due as at 31 December 2018, but not impaired, are from creditworthy customers who have a good track record with the Group and, based on historical default rates, management believes that no additional impairment allowance is necessary. Management also believes that currently no additional impairment allowance is necessary to trade receivables that are neither past due nor impaired.

For sensitivity of impairment charge of uncollectible receivables refer to Note 15.

3.3 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Group's liquidity risk mitigation principles define the level of cash and cash equivalents, marketable securities and the credit facilities available to the Group to allow it to meet its 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 and cash equivalents and credit facilities available on demand.

The table summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

thousands of EUR	On demand	Less than 3 months	3 to 12 months	Over 1 year	Total
At 31 December 2018					
Trade and other payables	4,918	108,321	12,642	4,668	130,549
At 31 December 2017					
Trade and other payables	3,196	125,144	17,511	4,707	150,558

Offsetting financial assets and liabilities
The following financial assets and liabilities are subject to offsetting:

thousands of EUR	Gross amounts	Offsetting	Net amounts
At 31 December 2018			
Current financial assets – Trade receivables	8,522	(6,814)	1,708
Current financial liabilities – Trade payables	8,131	(6,814)	1,317
At 31 December 2017			
Current financial assets – Trade receivables	7,294	(4,896)	2,398
Current financial liabilities – Trade payables	6,747	(4,896)	1,851

For the Group's accounting policy on offsetting refer to Note 2.7.

3.4 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholder and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

The Company's management proposes to the owner of the Company (through the Board of Directors) to approve dividend payments or adopt other changes in the Company's equity capital in order to optimize the capital structure of the Group. This can be achieved primarily by adjusting the amount of dividends paid to shareholder, or alternatively, by returning capital to shareholder by capital reductions, issue new shares or sell assets to reduce debt. The Group also takes into consideration any applicable guidelines of the ultimate parent company. No changes were made to the objectives, policies or processes in 2018.

The capital structure of the Group consists of equity attributable to shareholder, comprising issued capital, statutory reserve fund, retained earnings and other components of equity (Note 21). The management of the Group manages capital measured in terms of shareholder's equity amounting to at 31 December 2018 EUR 1,214,111 thousand (2017: EUR 1,115,774 thousand).

3.5 Fair values

Fair value measurement is analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

3.5.1 Recurring fair value measurement

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting year. There were no recurring fair value measurements in 2018 and 2017.

3.5.2 Non-recurring fair value measurement

There were no non-recurring fair value measurements in 2018 and 2017.

3.5.3 Financial assets and financial liabilities not measured at fair value

The fair value of other financial assets and financial liabilities approximate their carrying amounts at the statement of financial position date. Non-current receivables and non-current payables are discounted unless the effect of discounting was inconsiderable.

3.6 Presentation of financial instruments by measurement category

thousands of EUR	2018	2017
ASSETS		
Financial assets at amortised cost		
Trade and other receivables (Note 15)	109,584	112,709
Term deposits (Note 18)	3,432	6,336
Loans (Note 19)	217,000	183,000
Cash and cash equivalents (Note 20)	73,207	77,325
LIABILITIES		
Financial liabilities at amortised cost		
Trade and other payables (Note 23)		
Trade payables	51,765	58,847
Uninvoiced deliveries	54,374	50,455
Financial payables	15,553	18,748
Liabilities for acquisition of subsidiary	500	-
Finance lease payables	219	311
Other payables	1,320	13,660
Financial liabilities at fair value through profit or loss		
Trade and other payables (Note 23)		
Put option	6,817	8,537

4. BUSINESS COMBINATION

On 25 January 2018 the subsidiary of Slovak Telekom PosAm acquired 100% share and voting rights in company Commander Services s.r.o., an unlisted company with its registered seat at Žitná 23, 831 06 Bratislava, Slovak Republic. The change of ownership was registered in the Commercial register of the Slovak Republic on 6 February 2018. Main activity of the new subsidiary is GPS monitoring of motor vehicles.

The Group acquired Commander Services with the aim to enter in to the market of GPS monitoring of motor vehicles.

Consideration transferred
Details of the consideration transferred are:

thousands of EUR	2018
Cash paid (i)	4,034
Contingent consideration (ii)	500
Total consideration transferred	4,534

(i) The Group paid consideration of EUR 3,507 thousand in February 2018 and of EUR 527 thousand in April 2018. Fair values of those instalments at acquisition date were EUR 3,507 thousand and EUR 493 thousand respectively. Instalment paid in April 2018 was adjusted for net cash/debt and change in working capital.

(ii) Consideration of EUR 250 thousand shall be paid in March 2019. Fair value of the instalment at acquisition date was EUR 750 thousand and it was adjusted for materialised risks. On 31 December 2018 the Group had recognised current payable in amount of EUR 250 thousand in Trade and other payables (Note 23).

Consideration of EUR 250 thousand shall be paid in March 2020. Fair value of the instalment at acquisition date was EUR 250 thousand and it shall be adjusted for financial performance of Commander Services in 2019 (Revenues and Cash contribution targets). If financial performance will be worse than expected, the consideration will be decreased by amounts specified in the contract. On 31 December 2018 the Group had recognised non-current payable in amount of EUR 250 thousand in Trade and other payables (Note 23).

Acquisition-related costs of EUR 42 thousand were recognised as an expense in the current and prior years under Other operating costs in the consolidated income statement.

Assets acquired and liabilities assumed at the acquisition date
The following table summarises assets acquired and liabilities assumed as at the acquisition date 25 January 2018:

thousands of EUR	25 January 2018
Cash and cash equivalents	239
Property and equipment	446
Intangible assets	4,161
Inventories	354
Trade and other receivables	545
Prepaid expenses and other assets	56
Trade and other payables	(314)
Other liabilities and deferred income	(206)
Deferred tax	(853)
Net identifiable assets acquired	4,428
Add: goodwill	106
Net assets acquired	4,534

Trade and other receivables have gross contractual amount of EUR 607 thousand, of which EUR 62 thousand are contractual cash flows not expected to be collected.

Goodwill arose in the acquisition of Commander Services because the consideration transferred for the business combination effectively included amounts in relation to the benefit from expected synergies from GPS monitoring of motor vehicles in Slovak Telekom Group, revenue growth and future market development. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill is expected to be deductible for income tax purposes.

Impact of acquisition on the results of the Group
From the date of acquisition, Commander Services has contributed by EUR 4,909 thousand to revenue (net of intercompany revenue) and by EUR 1,613 thousand to the profit before tax of the Group (net of intercompany revenues and expenses). If the combination had taken place at 1 January 2018, contribution to the revenue and profit before tax of the Group would be in the same amounts.

5. REVENUE

thousands of EUR	2018	2017
Fixed network revenue	271,947	270,368
Mobile network revenue	280,940	333,140
Terminal equipment	90,548	33,241
System solutions / IT	77,296	66,044
Other	46,511	45,044
	767,242	747,837

6. STAFF COSTS

thousands of EUR	2018	2017
Wages and salaries	102,027	98,059
Defined contribution pension costs	13,348	12,910
Other social security contributions	17,316	18,838
	132,691	129,807

thousands of EUR	2018	2017
Number of employees at year end	3,529	3,507
Average number of employees during the year	3,526	3,459

7. OTHER OPERATING INCOME

thousands of EUR	2018	2017
Gain on disposal of property and equipment and intangible assets, net	5,342	387
Income from material sold	9,611	8,158
Income from rental of premises	1,870	1,842
Reversal of impairment of property and equipment (Note 12)	655	423
Income from marketing activities	3,849	3,602
Other	3,503	4,331
	24,830	18,743

8. OTHER OPERATING COSTS

thousands of EUR	2018	2017
Repairs and maintenance	15,659	15,352
Installation services	274	946
Marketing costs	15,796	18,402
Energy	13,613	12,964
Printing and postage	4,898	4,562
Logistics	4,351	4,587
Rentals and leases	20,730	19,396
IT services	6,903	6,755
Material sold	8,372	7,094
Dealer commissions	22,599	20,554
Recurring frequency and other fees to Regulatory Authority	4,771	4,757
Content fees	15,261	17,311
Legal and regulatory claims (Note 28)	208	17,906
Consultancy	3,171	1,897
Services related to delivery of solutions for customers	40,128	36,480
Fees paid to DT AG group	5,100	4,733
Other	20,425	20,613
Own work capitalised	(19,604)	(20,001)
	182,655	194,308

9. FINANCIAL INCOME

thousands of EUR	2018	2017
Interest on term deposits and bank accounts	131	146
Remeasurement of put option liability (Note 23)	1,720	2,642
Interest on loans	-	13
Interest from finance lease	-	4
Foreign exchange gains, net	96	-
Other	720	739
	2,667	3,544

10. FINANCIAL EXPENSE

thousands of EUR	2018	2017
Dividends paid to minority owners of PosAm	400	541
Foreign exchange losses, net	-	181
Interest costs on employee benefits provision	205	185
Interest cost on other non-current provisions	489	443
Bank charges and other financial expense	29	29
	1,123	1,379

11. TAXATION

The major components of income tax expense for the years ended 31 December are:

thousands of EUR	2018	2017
Current tax expense	36,995	36,551
Current tax expense of prior periods	151	2,738
Deferred tax income	(6,448)	(8,847)
Levy on regulated industries	9,633	7,168
Income tax expense reported in the income statement	40,331	37,610

Reconciliation between the reported income tax expense and the theoretical amount that would arise using the statutory tax rate is as follows:

thousands of EUR	2018	2017
Profit before income tax	153,148	110,534
Income tax calculated at the statutory rate of 21% (2017: 21%)	32,161	23,212
Effect of non-taxable income and tax non-deductible expenses:		
Cost related to legal and regulatory claims	33	3,727
Other tax non-deductible items, net	(1,647)	765
Tax charge in respect of prior years	151	2,738
Levy on regulated industries	9,633	7,168
Income tax at the effective tax rate of 26% (2017: 34%)	40,331	37,610

Deferred tax assets (liabilities) for the year ended 31 December are attributable to the following items:

thousands of EUR	1 January 2018	Through equity (change in accounting policy)	Through business combination	Through income statement	Through statement of comprehensive income	31 December 2018
Difference between carrying and tax value of fixed assets	(103,988)	-	(853)	5,280	-	(99,561)
Staff cost accruals	2,665	-	-	-	-	2,665
Allowance for bad debts	3,222	621	-	336	-	4,179
Termination benefits	328	-	-	757	-	1,085
Retirement benefit obligation	2,774	-	-	(16)	(5)	2,753
Asset retirement obligation	3,670	-	-	(295)	-	3,375
Contract assets	-	(14,281)	-	(719)	-	(15,000)
Contract costs	-	(4,450)	-	206	-	(4,244)
Contract liability	-	4,932	-	232	-	5,164
Other	6,367	(681)	-	667	-	6,353
Net deferred tax liability	(84,962)	(13,859)	(853)	6,448	(5)	(93,231)

Category "Difference between carrying and tax value of fixed assets" includes also value of the Customer relationships, which were in prior year recognised in category "Other".

thousands of EUR	1 January 2017	Through income statement	Through statement of comprehensive income	31 December 2017
Difference between carrying and tax value of fixed assets	(111,217)	6,602	-	(104,615)
Staff cost accruals	2,379	286	-	2,665
Allowance for bad debts	2,988	234	-	3,222
Termination benefits	926	(598)	-	328
Retirement benefit obligation	2,532	130	112	2,774
Asset retirement obligation	2,691	979	-	3,670
Other	5,780	1,214	-	6,994
Net deferred tax liability	(93,921)	8,847	112	(84,962)

Deferred tax asset of EUR 1,457 thousand is recognised in respect of subsidiaries DIGI, PosAm, Commander Services and Zoznam and deferred tax liability of EUR 94,688 thousand in respect of other entities. The Group offsets deferred tax assets and deferred tax liabilities if, and only if, those relate to income taxes levied by the same taxation authority on the same taxable entity.

thousands of EUR	2018	2017
Deferred tax asset to be settled within 12 months	1,556	1,180
Deferred tax asset to be settled after more than 12 months	12	5
Deferred tax liability to be settled after more than 12 months	(111)	(88)
Net deferred tax asset	1,457	1,097

thousands of EUR	2018	2017
Deferred tax asset to be settled within 12 months	17,543	11,010
Deferred tax asset to be settled after more than 12 months	7,342	6,933
Deferred tax liability to be settled within 12 months	(15,845)	(895)
Deferred tax liability to be settled after more than 12 months	(103,728)	(103,107)
Net deferred tax liability	(94,688)	(86,059)

12. PROPERTY AND EQUIPMENT

thousands of EUR	Land, buildings and structures	Duct, cable and other outside plant	Telecommu-nications equipment	Radio and transmission equipment	Other	Capital work in progress including advances	Total
At 1 January 2018							
Cost	177,163	1,028,028	490,098	208,368	324,938	62,385	2,290,980
Accumulated depreciation	(98,078)	(617,246)	(446,607)	(162,381)	(242,015)	(332)	(1,566,659)
Net book value	79,085	410,782	43,491	45,987	82,923	62,053	724,321
Acquisition through business combination	-	-	-	-	446	-	446
Additions	1,147	17,748	5,083	4,485	17,197	44,954	90,614
Depreciation charge	(3,523)	(36,799)	(16,178)	(15,685)	(24,344)	-	(96,529)
Impairment charge	-	-	(90)	-	(76)	-	(166)
Reversal of impairment	16	305	25	1	27	281	655
Disposals	(5,731)	(16)	(23)	(73)	(506)	(13)	(6,362)
Transfers	2,252	9,387	11,230	6,412	8,620	(37,901)	-
At 31 December 2018							
Cost	168,774	1,048,601	451,620	171,956	331,045	69,388	2,241,384
Accumulated depreciation	(95,528)	(647,194)	(408,082)	(130,829)	(246,758)	(14)	(1,528,405)
Net book value	73,246	401,407	43,538	41,127	84,287	69,374	712,979

Property and equipment, excluding motor vehicles, is locally insured to a limit of EUR 25,223 thousand (2017: EUR 25,000 thousand). Any loss exceeding local limit is insured by DT AG Global Insurance Program up to EUR 700,000 thousand. The Group has the third party liability insurance for all motor vehicles.

thousands of EUR	Land, buildings and structures	Duct, cable and other outside plant	Telecommu-nications equipment	Radio and transmission equipment	Other	Capital work in progress including advances	Total
At 1 January 2017							
Cost	176,231	1,009,356	505,488	269,859	331,798	56,515	2,349,247
Accumulated depreciation	(98,632)	(582,024)	(453,913)	(225,043)	(246,706)	(434)	(1,606,752)
Net book value	77,599	427,332	51,575	44,816	85,092	56,081	742,495
Additions	4,556	12,032	2,941	4,854	9,485	51,754	85,622
Depreciation charge	(3,497)	(35,444)	(16,658)	(16,448)	(30,822)	-	(102,869)
Impairment charge	(57)	(28)	(1)	(17)	(150)	-	(253)
Reversal of impairment	-	3	161	-	236	23	423
Disposals	(715)	-	(41)	-	(239)	(102)	(1,097)
Transfers	1,199	6,887	5,514	12,782	19,321	(45,703)	-
At 31 December 2017							
Cost	177,163	1,028,028	490,098	208,368	324,938	62,385	2,290,980
Accumulated depreciation	(98,078)	(617,246)	(446,607)	(162,381)	(242,015)	(332)	(1,566,659)
Net book value	79,085	410,782	43,491	45,987	82,923	62,053	724,321

13. INTANGIBLE ASSETS

thousands of EUR	Software	Licences	Internally developed intangible assets	Goodwill	Customer relationships	Other	Total
At 1 January 2018							
Cost	510,928	244,498	8,245	112,970	290,531	26,341	1,193,513
Accumulated amortisation	(460,507)	(134,214)	(3,697)	(3,000)	(265,460)	-	(866,878)
Net book value	50,421	110,284	4,548	109,970	25,071	26,341	326,635
Acquisition through business combination	-	-	426	106	3,735	-	4,267
Additions	29,645	16,593	839	-	-	19,704	66,781
Amortisation charge	(32,613)	(31,800)	(997)	-	(3,495)	-	(68,905)
Disposals	-	-	-	-	-	(2)	(2)
Transfers	9,042	1,341	121	-	-	(10,504)	-
At 31 December 2018							
Cost	541,783	240,684	9,597	113,076	44,733	35,539	985,412
Accumulated amortisation	(485,288)	(144,266)	(4,660)	(3,000)	(19,422)	-	(656,636)
Net book value	56,495	96,418	4,937	110,076	25,311	35,539	328,776

Customer relationships recognized at the acquisition of T-Mobile in December 2004 were fully amortised at 31 December 2017.

The remaining part of customer relationships was recognised at acquisition of subsidiaries DIGI, PosAm and Commander Services with total net book value at 31 December 2018 of EUR 25,311 thousand (2017: EUR 25,071 thousand).

Net book value of the category Other includes intangible assets in progress of EUR 35,339 thousand (2017: EUR 26,341 thousand).

For cost and impairment of goodwill refer to Note 14.

thousands of EUR	Software	Licences	Internally developed intangible assets	Goodwill	Customer relationships	Other	Total
At 1 January 2017							
Cost	470,541	232,302	7,225	112,970	290,531	31,870	1,145,439
Accumulated amortisation	(433,135)	(111,315)	(3,038)	(3,000)	(243,274)	-	(793,762)
Net book value	37,406	120,987	4,187	109,970	47,257	31,870	351,677
Additions	33,266	12,649	951	-	-	11,941	58,807
Amortisation charge	(34,347)	(26,597)	(719)	-	(22,186)	-	(83,849)
Transfers	14,096	3,245	129	-	-	(17,470)	-
At 31 December 2017							
Cost	510,928	244,498	8,245	112,970	290,531	26,341	1,193,513
Accumulated amortisation	(460,507)	(134,214)	(3,697)	(3,000)	(265,460)	-	(866,878)
Net book value	50,421	110,284	4,548	109,970	25,071	26,341	326,635

14. IMPAIRMENT OF GOODWILL

For impairment testing, the goodwill acquired in business combinations has been allocated to individual cash-generating units, as of 31 December 2018 and 2017:

thousands of EUR	T-Mobile	DIGI	PosAm	Commander Services (since 2018)	Zoznam and Zoznam Mobile	Total
Goodwill allocated to cashgenerating units	73,313	28,621	6,368	106	4,668	113,076
Impairment	-	-	-	-	(3,000)	(3,000)
	73,313	28,621	6,368	106	1,668	110,076

T-Mobile (Mobile telecommunication business)

The goodwill was recognised at the acquisition of T-Mobile in December 2004. The recoverable amount of the cash-generating unit was determined using cash flows projections based on the ten-year financial plans that present the management's best estimate on market participants' assumptions and expectations. The Group uses ten-year cash flow projections as the payback period of the investments in the telecommunications operations often exceeds 5 years. Cash flows beyond the ten-year period are extrapolated using a 1.5% growth rate (2017: 1.5%) and a discount rate of 5.81% (2017: 5.49%). The growth rate does not exceed the long-term average growth rate for the market in which the cash-generating unit operates. Further key assumptions on which management has based its determination of the recoverable amount of cash-generating unit include the development of revenue, customer acquisition and retention costs, churn rates, capital expenditures and market share, which are based on past performance and management's expectations for the future. Input parameters used to determine the recoverable amount are classified in Level 3 in accordance with IFRS 13. The recoverable amount of the cash-generating unit based on fair value less costs of disposal calculation exceeded its carrying value. Management believes that any reasonably possible change in the key assumptions on which the cash-generating unit's recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

DIGI, PosAm, Commander Services, Zoznam and Zoznam Mobile

The recoverable amounts of the cash-generating units were determined using cash flows projections based on the four-year financial plans that have been approved by management and are also used for internal purposes of the cash-generating units. Cash flows beyond the four-year period are extrapolated using a 1.5% growth rate (2017: 1.5%). The growth rate does not exceed the long-term average growth rate for the market in which the cash-generating units operate.

The Group uses following discount rates:

	2018	2017
DIGI (TV business)	6.25%	5.91%
PosAm (IT solutions business)	6.76%	6.45%
Commander Services (GPS monitoring of the motor vehicles)	10.30%	-
Zoznam and Zoznam Mobile (Online business)	7.95%	7.63%

Further key assumptions on which management has based its determination of the recoverable amounts of the cash-generating units include the development of revenue, customer acquisition and retention costs, capital expenditure and market share, which are based on past performance and management's expectations for the future. Input parameters used to determine the recoverable amount are classified in Level 3 in accordance with IFRS 13. In 2018 and 2017, the recoverable amounts of the cash-generating units based on fair value less costs of disposal calculation exceeded its carrying amounts. Management believes that any reasonably possible change in the key assumptions on which the cash-generating unit's recoverable amounts are based would not cause its carrying amounts to exceed its recoverable amounts.

In 2011, the carrying amount of the cash generating unit Zoznam and Zoznam Mobile exceeded its recoverable amount based on fair value less costs of disposal calculation by EUR 3,000 thousand and the Group allocated impairment to goodwill in the same amount.

15. TRADE AND OTHER RECEIVABLES

thousands of EUR	2018	2017
Non-current		
Receivables from instalment sale	479	201
Finance lease receivables	915	1,445
	1,394	1,646
Current		
Trade receivables	106,778	109,686
Other receivables	479	570
Finance lease receivables	933	807
	108,190	111,063

Trade receivables are net of an allowance of EUR 28,983 thousand (2017: EUR 20,355 thousand). If the allowance percentage increases by 1% in each relevant ageing group (except where there is 100% allowance created), the charge for the year would be by EUR 785 thousand higher (2017: EUR 188 thousand).

Movements in the allowance for impaired receivables from third parties were as follows:

thousands of EUR	2018	2017
At 1 January	20,355	19,609
Opening balance adjustment related to IFRS 9	7,463	-
Charge for the year, net	6,006	5,012
Utilised	(4,841)	(4,266)
At 31 December	28,983	20,355

Opening balance adjustment related to IFRS 9 consists of change in standard receivables allowance (EUR 1,693 thousand) and change in allowance to risk receivables (in 2017 decreasing directly revenues), which percentage of creation has been reassessed under IFRS 9 and since 2018 this allowance is treated as standard bad debt (EUR 5,770 thousand).

16. PREPAID EXPENSES AND OTHER ASSETS

thousands of EUR	2018	2017
Non-current		
Easements	9,277	9,207
Subscriber acquisition costs	-	2,440
Other prepaid expenses	1,915	2,038
	11,192	13,685
Current		
Subscriber acquisition costs	-	1,660
Other prepaid expenses	3,970	4,441
Advance payments	10,615	2,678
Other assets	205	300
	14,790	9,079

17. INVENTORIES

thousands of EUR	2018	2017
Materials	6,958	6,216
Goods	8,444	10,301
	15,402	16,517

Inventories are net of an allowance of EUR 1,236 thousand (2017: EUR 1,940 thousand). The write-down of inventories in the amount of EUR 553 thousand (2017: EUR 576 thousand) was recognised in cost of material and equipment.

18. TERM DEPOSITS

thousands of EUR	2018	2017
Term deposits in banks	3,432	6,336
	3,432	6,336

Term deposits include deposits at banks with original maturity more than 3 months from the date of acquisition. Short-term deposits with original maturity of three months or less from the date of acquisition are presented as cash and cash equivalents. For credit ratings see Note 3.2.

19. LOANS

thousands of EUR	2018	2017
Loans to Deutsche Telekom AG	217,000	183,000
	217,000	183,000

The loans granted to Deutsche Telekom AG were not secured Loans outstanding at 31 December 2018 were provided in December 2018 and were repayable in January 2019 (2017: provided in December 2017, repayable in January 2018). For credit ratings see Note 3.2.

20. CASH AND CASH EQUIVALENTS

thousands of EUR	2018	2017
Cash and cash equivalents	73,207	77,325
	73,207	77,325

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term investments are made for varying periods between one day and three months and earn interest at the respective rates. For credit ratings see Note 3.2.

21. SHAREHOLDERS' EQUITY

On 18 June 2015 Deutsche Telekom Europe B.V. became the sole shareholder of Slovak Telekom.

As at 31 December 2018, Slovak Telekom had authorised and issued 86,411,300 ordinary shares (2017: 86,411,300) with a par value of EUR 10.00 per share (2017: EUR 10.00 per share). All the shares issued were fully subscribed. All the shares represent the rights of shareholder to participate in the managing of Slovak Telekom, on the profit and liquidation balance upon the winding-up of Slovak Telekom with liquidation.

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 2013, after the distribution of 2012 statutory profit, the statutory reserve fund reached the level required by the Slovak law and the Articles of Association of Slovak Telekom, a.s.

Category Other in the Consolidated statement of changes in equity covers changes of equity from retirement benefits (Note 22) and share-based payment plan.

The Financial statements of the Group for the year ended 31 December 2017 were authorised for issue on behalf of the Board of Directors of Slovak Telekom on 15 March 2018.

On 30 April 2018 Deutsche Telekom Europe B.V. while performing competences of the General meeting of Slovak Telekom approved distribution of the prior year profit in the form of dividends. Total dividends of EUR 66,637 thousand (2017: EUR 61,232 thousand) were paid in May 2018, which amounted to EUR 0.77 per share (2017: EUR 0.71 per share).

Approval of the 2018 profit distribution will take place at the Annual General Meeting scheduled for April 2019.

22. PROVISIONS

thousands of EUR	Legal and regulatory claims	Asset retirement obligation	Termination benefits	Employee benefits	Other	Total
	(Note 28)					
At 1 January 2018	3,509	17,480	1,562	13,510	2,127	38,188
Arising during the year	768	491	5,169	1,016	1,172	8,616
Utilised	-	(4)	(1,552)	(27)	(768)	(2,351)
Reversals	(639)	(35)	(10)	(1,284)	(322)	(2,290)
Transfers	-	-	-	-	-	-
Interest impact	-	(1,861)	-	209	1	(1,651)
At 31 December 2018	3,638	16,071	5,169	13,424	2,210	40,512
Non-current	-	16,071	-	13,424	985	30,480
Current	3,638	-	5,169	-	1,225	10,032
	3,638	16,071	5,169	13,424	2,210	40,512

thousands of EUR	2018	2017
Non-current	30,480	32,071
Current	10,032	6,117
	40,512	38,188

Asset retirement obligation

The Group is subject to obligations for dismantlement, removal and restoration of assets associated with its cell site operating leases (Note 2.18). Cell site lease agreements may contain clauses requiring restoration of the leased site at the end of the lease term, creating an asset retirement obligation.

Termination benefits

The restructuring of the Group operations resulted in headcount reduction of 131 employees in 2018. The Group expects a further headcount reduction of 251 employees in 2019 as a result of an ongoing restructuring program. A detailed formal plan that specifies the number of staff involved and their locations and functions was defined and authorised by management and announced to the trade unions. The amount of compensation to be paid for terminating employment was calculated by reference to the collective agreement. The termination payments are expected to be paid within twelve months of the statement of financial position date and are recognised in full in the current period. In 2018 the Group recognised an expense resulting from termination benefits in amount of EUR 3,121 thousand (2017: EUR 5,082 thousand) in staff costs.

Retirement and jubilee benefits

The Group provides benefit plans for all its employees. Provisions are created for benefits payable in respect of retirement and jubilee benefits. One-off retirement benefits are dependent on employees fulfilling the required conditions to enter retirement and jubilee benefits are dependent on the number of years of service with the Group. The benefit entitlements are determined from the respective employee’s monthly remuneration or as a defined particular amount.

thousands of EUR	Retirement benefits	Jubilee	Total
Present value of the defined benefit obligation			
At 1 January 2018	13,210	300	13,510
Current service cost	1,011	25	1,036
Interest cost	205	4	209
Benefits paid	(9)	(18)	(27)
Remeasurement of defined benefit plans	(22)	2	(20)
Curtailment gain	(1,284)	-	(1,284)
At 31 December 2018	13,111	313	13,424

thousands of EUR	Retirement benefits	Jubilee	Total
Present value of the defined benefit obligation			
At 1 January 2017	12,057	290	12,347
Current service cost	775	24	799
Interest cost	185	5	190
Benefits paid	(9)	(12)	(21)
Remeasurement of defined benefit plans	533	(7)	526
Curtailment gain	(331)	-	(331)
At 31 December 2017	13,210	300	13,510

Remeasurement of defined benefit plans related to retirement benefits in amount of EUR 22 thousand consists of change in demographic assumptions in amount of EUR 37 thousand partially netted by experience adjustments in amount of EUR 15 thousand.

The curtailment gain in amount of EUR 1,284 thousand resuled mainly from a reduction in the number of participants covered by the retirement plan that occurred in 2018 or was announced for 2019. There were no special events causing any new past service cost during 2018 other than the curtailment mentioned above.

Principal actuarial assumptions used in determining the defined benefit obligation and the curtailment effect in 2018 include the discount rate of 1.58% (2017: 1.58%). The expected expense for 2018 has been determined based on the discount rate as at the beginning of the accounting year of 1.58% (2017: 1.56%). Average retirement age is 62 years (2017: 62 years). The expected growth of nominal wages over the long term is 2.0% (2017: 2.0%). The remaining weighted average duration of the defined benefit obligation is 12.2 years (2017: 13.3 years).

The sensitivity analysis for the significant actuarial assumptions as at 31 December 2018 and 2017 is as follows:

thousands of EUR	(Decrease) / increase of employee benefits provision	
	2018	2017
Change of actuarial assumption:		
Discount rate change +100 bp / -100 bp	(1,445) / 1,641	(1,559) / 1,786
Salary change +0.50% / -0.50%	790 / (749)	858 / (810)
Change in life expectation +1 year / -1 year	16 / (18)	16 / (18)

23. TRADE AND OTHER PAYABLES

thousands of EUR	2018	2017
Non-current		
Financial payables for capitalised content licences	3,875	4,098
Liabilities for acquisition of subsidiary (Note 4)	250	-
Finance lease payables	63	62
Other payables	542	547
	4,730	4,707
Current		
Trade payables	51,765	58,847
Uninvoiced deliveries	54,374	50,455
Put option	6,817	8,537
Financial payables for capitalised content licences	11,678	14,650
Liabilities for acquisition of subsidiary (Note 4)	250	-
Finance lease payables	156	249
Other payables	778	13,113
	125,818	145,851

Reconciliation of cash used in investing activities:

thousands of EUR	2018	2017
Additions to property and equipment and intangible assets (Notes 12, 13)	157,395	144,429
Additions to capitalised content licences	(17,593)	(13,498)
Non-cash additions from asset retirement obligation	(579)	(4,224)
Change in payables for purchase of property and equipment and intangible assets	3,903	344
Cash used in investing activities for purchase of property and equipment and intangible assets	143,126	127,051

Reconciliation of cash used in financing activities:

thousands of EUR	2018	2017
Additions to capitalised content licences	17,593	13,498
Change in financial payables for capitalised content licences	3,195	3,593
Foreign exchange adjustments	406	(500)
Cash used in financing activities for purchase of intangible assets	21,194	16,591

24. OTHER LIABILITIES AND DEFERRED INCOME

thousands of EUR	2018	2017
Non-current		
Deferred income	-	5,154
Other liabilities	242	435
	242	5,589
Current		
Deferred income	1,245	35,806
Amounts due to employees	20,624	21,629
Other tax liabilities	10,492	10,154
Other liabilities	5,509	5,487
	37,870	73,076

Amounts due to employees include social fund liabilities:

thousands of EUR	2018	2017
At 1 January	115	115
Additions	1,540	1,531
Utilisation	(1,390)	(1,531)
At 31 December	265	115

25. COMMITMENTS

The Group's purchase commitments were as follows:

thousands of EUR	2018	2017
Acquisition of property and equipment	47,913	57,882
Acquisition of intangible assets	4,922	5,622
Purchase of services and inventory	100,229	100,366
	153,064	163,870

26. OPERATING LEASE – THE GROUP AS LESSEE

The future minimum operating lease payments were as follows:

thousands of EUR	2018	2017
Operating lease payments due within one year	18,028	17,946
Operating lease payments due between one and five years	32,535	34,981
Operating lease payments due after five years	6,301	10,446
	56,864	63,373

The possible prolongation of operating lease contracts is not reflected in the table.

During 2013 the Group has entered into an operating lease of premises contract for the period of 10 years. The Group has an option to extend the lease term for the next 2 years and the Group has a right to exercise the option repeatedly, maximum five times. Since 2015 rental payments shall increase annually by the portion contingent on the index of the consumer prices increase in the Eurozone, maximum 3.5% annually.

27. RELATED PARTY TRANSACTIONS

thousands of EUR	Receivables		Payables		Sales and income		Purchases		Commitments	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
DT AG	223,234	187,815	9,611	7,752	5,377	3,986	10,789	8,712	178	168
Other entities in DT AG group	7,549	6,476	9,242	8,616	24,879	22,653	24,946	21,646	14,073	14,746
	230,783	194,291	18,853	16,368	30,256	26,639	35,735	30,358	14,251	14,914

The Group conducts business with its ultimate parent, Deutsche Telekom AG and its subsidiaries, associates and joint ventures. Business transactions relate mainly to telephone calls and other traffic in the related parties' networks. Other transactions include data services, management, consultancy, other services and purchases of fixed assets. The Group purchased fixed assets in amount of EUR 1,917 thousand (2017: EUR 1,124 thousand) from related parties.

In 2018 the Group granted Deutsche Telekom AG a short-term loan of EUR 217,000 thousand (2017: EUR 183,000 thousand).

In 2016 the Group signed an ICT contract with a duration of 80 months with T-Systems International GmbH ("TSI"). Within this contract, the Group acts as the main subcontractor for the restructuring of the Allianz communication network in the selected countries. DT AG Group entities in relevant countries are service providers for the Group. The total value of the contract amounts to EUR 41,537 thousand. In 2018 the Group recognised revenue with TSI in amount of EUR 5,432 thousand (2017: EUR 4,829 thousand), revenue with other DT AG Group entities in amount of EUR 68 thousand (2017: EUR 274 thousand) and expenses with other DT AG Group entities in amount of EUR 4,069 thousand (2017: EUR 3,898 thousand).

Deutsche Telekom as the ultimate parent company controlling Slovak Telekom is a related party to the Federal Republic of Germany. Slovak Telekom had no individually significant transactions with the Federal Republic of Germany or entities that it controls, jointly controls or where Federal Republic of Germany can exercise significant influence in either 2018 or 2017.

Compensation of key management personnel
The key management personnel as at 31 December 2018, 15 in number (2017: 15) include members of the Management Board, Board of Directors and Supervisory Board.

Since 1 July 2016 the companies Slovak Telekom and T-Mobile Czech Republic a.s. have the joint Management Board. All management members are responsible for business and managerial activities of companies on both Slovak and Czech markets. The number of key management personnel include all members of the Management Board, irrespective if they are employed by Slovak Telekom or T-Mobile Czech Republic a.s. Tables below include only benefits earned by the key management personnel in Slovak Telekom.

thousands of EUR	2018	2017
Short term employee benefits	1,899	2,316
Defined contribution pension plan benefits	146	52
Share-based payment plan	-	15
	2,045	2,383

thousands of EUR	2018	2017
Management Board	2,032	2,352
Board of Directors	-	15
Supervisory Board	13	16
	2,045	2,383

The benefits of Management Board in 2017 include amount of EUR 8 thousand for private spending of members charged to the Group.

28. CONTINGENCIES

Legal and regulatory cases
On 17 October 2014 the European Commission sent an infringement decision to the Company in case AT 39.523 (hereinafter “the Decision”). The Decision found the Company (and DT AG, as parent company) liable for breach of competition law (margin squeeze and refusal to deal) in relation to ULL for the period 12 August 2005 – 31 December 2010 and imposed a fine of EUR 38,838 thousand on DT AG and the Company, jointly and severally. On 26 December 2014 the Company filed an appeal against the Decision to the General Court of the European Union. The fine was paid by the Company in January 2015. On 13 December 2018 the General Court partially annulled the Decision stating that pricing practices were not proved for the entire time period as stated in the Decision and reduced imposed fine. The Company has right to appeal the General Court’s decision to Court of Justice.

Following the European Commission's decision, three competitors of the Company filed action against Slovak Telekom with the civil court in Bratislava in 2015, one of the claimants withdrew its action in 2017. Another damage claim action was filed in 2017. These claims seek compensation for damages allegedly incurred due to Company's abuse of its dominant market position, as determined by the European Commission and amount to EUR 214,915 thousand plus interest. Other competitors that believe they have been harmed by the Company anti-competitive conduct during the infringement period may decide to file actions for damages as well.

In 2009, the Anti-Monopoly Office (“AMO”) imposed on Company a penalty of EUR 17,453 thousand for abusing its dominant position by price squeeze and tying practices on several relevant markets (voice, data and network access services on its fixed network). Company filed an action for judicial review of AMO decisions to the Regional Court in Bratislava in 2009. In January 2012, the Regional Court cancelled the AMO decision. The Regional Court’s judgment was subsequently cancelled by the Supreme Court in February 2014 upon AMO’s appeal and the Regional Court confirmed AMO’s decisions in June 2017. The penalty was paid in October 2017. The Company appealed.

In 2013, two competitors filed actions against Company seeking damages allegedly incurred due to Company’s conduct as determined by the AMO, third competitor filed similar action in 2015. The claimants contend that they incurred lost profit amounting to EUR 141,690 thousand plus interest. All three proceedings are ongoing at first instance District Court Bratislava II.

The Group is otherwise involved in legal and regulatory proceedings in the normal course of business.

As at 31 December 2018, the Group recognised provision for known and quantifiable risks related to proceedings against the Group, which represent the Group’s best estimate of the amounts, which are more likely than not to be paid. The actual amounts of penalties, if any, are dependent on a number of future events the outcome of which is uncertain, and, as a consequence, the amount of provision may change at a future date.

29. AUDIT FEES

The Group obtained following services from the audit company PricewaterhouseCoopers Slovensko, s.r.o.:

thousands of EUR	2018	2017
Audit services	440	349
Other assurance services	4	-
Tax advisory services	4	4
Other non-audit services	232	548
	680	901

30. ASSETS AND LIABILITIES RELATED TO CONTRACTS WITH CUSTOMERS

Contract asset is recognised mainly in case of multiple element arrangements (e.g. mobile contract plus handset), when a larger portion of the total consideration is attributable to the component delivered in advance (mobile handset), requiring earlier recognition of revenue.

Contract costs are assessed as incremental cost of obtaining a contract and consists of Dealer commission.

Contract liability is related mainly to one-time fees and advanced payments for post-paid services.

The Group has recognised the following assets and liabilities related to contracts with customers:

thousands of EUR	Closing balance 2018	Opening balance 2018
Non-current assets		
Contract assets	24,591	21,190
Loss allowance	(864)	(333)
	23,727	20,857
Contract costs	5,213	5,665
	5,213	5,665
Current assets		
Contract assets	50,790	49,522
Loss allowance	(3,088)	(2,375)
	47,702	47,147
Contract costs	15,158	16,166
	15,158	16,166
Non-current liabilities		
Contract liabilities	4,704	4,888
	4,704	4,888
Current liabilities		
Contract liabilities	53,552	51,883
	53,552	51,883

Revenue recognised in the reporting year that was included in the contract liability balance at the beginning of the year amounted to EUR 48,931 thousand.

Transaction price allocated to the performance obligations that are unsatisfied as of the end of reporting year amounted to EUR 351,137 thousand. Management expects that the transaction price allocated to the unsatisfied contracts as of 31 December 2018 will be recognised as revenue as follows: EUR 263,153 thousand during first year; EUR 84,724 thousand during second year and EUR 3,260 thousand during third-tenth year.

Wages and salaries include also amortisation of costs to obtain a contract with customer in the amount of EUR 3,581 thousand (Note 6).

Dealer commission includes also amortisation of costs to obtain a contract with customer in the amount of EUR 2,694 thousand (Note 8).

31. EVENTS AFTER REPORTING YEAR

There were no events, which have occurred subsequent to the year-end, which would have a material impact on the financial statements at 31 December 2018.

Slovak Telekom, a.s.

SEPARATE FINANCIAL STATEMENTS

prepared in accordance with International Financial Reporting Standards (IFRS) and Auditor's Report

FOR THE YEAR ENDED 31 DECEMBER 2018

CONTENTS

INDEPENDENT AUDITOR'S REPORT

pwc

Independent Auditor's Report

To the Shareholder, Supervisory Board, and Board of Directors of Slovak Telekom, a.s.:

Our opinion

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of Slovak Telekom, a.s. (the "Company") as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited

The Company's separate financial statements comprise:

- the separate income statement and separate statement of comprehensive income for the year ended 31 December 2018;
- the separate statement of financial position as at 31 December 2018;
- the separate statement of changes in equity for the year then ended;
- the separate statement of cash flows for the year then ended; and
- the notes to the separate financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the separate financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants issued by the International Federation of Accountants ("Code of Ethics") and other requirements of legislation that are relevant to our audit of the separate financial statements in the Slovak Republic. We have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 28 to these separate financial statements, which describe the infringement decisions of the European Commission and Antimonopoly Office of the Slovak Republic against the Company and the implications thereof. The ultimate outcome of the related proceedings cannot presently be determined.

PricewaterhouseCoopers Slovensko, s.r.o., Karadžičova 2, Bratislava, 815 32, Slovak Republic
T: +421 (0) 2 59350 111, F: +421 (0) 2 59350 222, www.pwc.com/sk

The company's ID (IČO) No. 35739347.
Tax Identification No. of PricewaterhouseCoopers Slovensko, s.r.o. (DIČ) 2020270021.
VAT Reg. No. of PricewaterhouseCoopers Slovensko, s.r.o. (IČ DPH) SK2020270021.
Spoločnosť je zapísaná v Obchodnom registri Okresného súdu Bratislava 1, pod vložkou č. 16611/B, oddiel: Sro.
The company is registered in the Commercial Register of Bratislava 1 District Court, ref. No. 16611/B, Section: Sro.

pwc

Reporting on other information in the annual report

Management is responsible for the annual report prepared in accordance with the Slovak Act on Accounting No. 431/2002, as amended (the "Accounting Act"). The annual report comprises (a) the separate financial statements and (b) other information.

Our opinion on the separate financial statements does not cover the other information.

In connection with our audit of the separate financial statements, our responsibility is to read the annual report and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the annual report, we considered whether it includes the disclosures required by the Accounting Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the annual report for the year ended 31 December 2018 is consistent with the separate financial statements; and
- the annual report has been prepared in accordance with the Accounting Act.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the annual report. We have nothing to report in this respect.

Management's responsibilities for the separate financial statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers Slovensko, s.r.o.
SKAU licence No. 161

Slovenská komora audítorov
SKAU
Č. licencie 161
PricewaterhouseCoopers Slovensko, s.r.o.

Mgr. Marián Mihaľo
UDVA licence No. 1187

Bratislava, 14 March 2019

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER

thousands of EUR	Notes	2018	2017
Revenue	4	695,579	684,036
Staff costs	5	(113,907)	(114,023)
Material and equipment		(90,762)	(85,496)
Depreciation, amortisation and impairment losses	11, 12	(153,209)	(174,621)
Interconnection and other fees to operators		(59,097)	(54,721)
Impairment losses on financial and contract assets		(6,555)	(4,296)
Other operating income	6	33,101	25,405
Other operating costs	7	(161,141)	(174,233)
Operating profit		144,009	102,051
Financial income	8	1,394	1,460
Financial expense	9	(702)	(920)
Net financial result		692	540
Profit before tax		144,701	102,591
Income tax expense	10	(38,399)	(35,954)
Profit for the year		106,302	66,637

The financial statements on pages 78 to 120 were authorised for issue on behalf of the Board of Directors of the Company on 14 March 2019 and signed on their behalf by:

Jose Severino Perdomo Lorenzo
Vice-chairman of the Board of Directors

Daria A. Dodonova
Member of the Board of Directors

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

thousands of EUR	Notes	2018	2017
Profit for the year		106,302	66,637
Other comprehensive income			
Gain / (loss) on remeasurement of defined benefit plans	22	22	(533)
Deferred tax income / (expense)	10	(5)	112
Other comprehensive income not to be reclassified to profit or loss in subsequent years, net of tax		17	(421)
Other comprehensive income for the year, net of tax		17	(421)
Total comprehensive income for the year, net of tax		106,319	66,216

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER

thousands of EUR	Notes	2018	2017
ASSETS			
Non-current assets			
Property and equipment	11	704,392	714,929
Intangible assets	12	255,785	256,436
Investments in subsidiaries	14	69,158	69,158
Other receivables	15	1,382	1,634
Contract assets	30	23,727	-
Contract costs	30	5,213	-
Prepaid expenses and other assets	16	11,063	13,555
		1,070,720	1,055,712
Current assets			
Inventories	17	14,632	15,904
Term deposits	18	3,432	6,336
Loans	19	217,000	183,000
Trade and other receivables	15	105,482	102,930
Contract assets	30	47,702	-
Contract costs	30	15,159	-
Current income tax receivable		499	-
Prepaid expenses and other assets	16	13,268	8,082
Cash and cash equivalents	20	39,550	49,615
		456,724	365,867
TOTAL ASSETS		1,527,444	1,421,579
EQUITY AND LIABILITIES			
Shareholders' equity			
Issued capital	21	864,113	864,113
Statutory reserve fund	21	172,823	172,823
Other		(2,814)	(2,833)
Retained earnings and profit for the year		158,439	66,637
Total equity		1,192,561	1,100,740
Non-current liabilities			
Deferred tax	10	89,431	80,905
Provisions	22	30,427	32,047
Other payables	23	2,547	2,730
Contract liabilities	30	4,531	-
Other liabilities and deferred income	24	242	5,362
		127,178	121,044
Current liabilities			
Provisions	22	8,350	4,392
Trade and other payables	23	113,864	127,357
Contract liabilities	30	50,317	-
Other liabilities and deferred income	24	32,094	65,788
Current income tax liability		3,080	2,258
		207,705	199,795
Total liabilities		334,883	320,839
TOTAL EQUITY AND LIABILITIES		1,527,444	1,421,579

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER

thousands of EUR	Notes	Issued capital	Statutory reserve fund	Other	Retained earnings	Total equity
Year ended 31 December 2017						
At 1 January 2017		864,113	172,823	(2,350)	61,232	1,095,818
Profit for the year		-	-	-	66,637	66,637
Other comprehensive expense		-	-	(421)	-	(421)
Total comprehensive income		-	-	(421)	66,637	66,216
Transactions with shareholder:						
Other changes in equity		-	-	(62)	-	(62)
Dividends	21	-	-	-	(61,232)	(61,232)
At 31 December 2017		864,113	172,823	(2,833)	66,637	1,100,740
Year ended 31 December 2018						
At 1 January 2018		864,113	172,823	(2,833)	66,637	1,100,740
Change in accounting policy	2.20	-	-	-	52,137	52,137
Restated total equity at 1 January 2018		864,113	172,823	(2,833)	118,774	1,152,877
Profit for the year		-	-	-	106,302	106,302
Other comprehensive income		-	-	17	-	17
Total comprehensive income		-	-	17	106,302	106,319
Transactions with shareholder:						
Other changes in equity		-	-	2	-	2
Dividends	21	-	-	-	(66,637)	(66,637)
At 31 December 2018		864,113	172,823	(2,814)	158,439	1,192,561

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER

thousands of EUR	Notes	2018	2017
Operating activities			
Profit for the year		106,302	66,637
Adjustments for:			
Depreciation, amortisation and impairment losses	11, 12	153,209	174,621
Interest income, net		(843)	(874)
Income tax expense	10	38,399	35,954
Gain on disposal of property and equipment and intangible assets	6	(5,309)	(349)
Dividend income from subsidiaries	8, 27	(416)	(563)
Other non-cash items		6,613	6,588
Movements in provisions	22	3,525	(27,115)
Changes in working capital:			
Change in trade receivables and other assets		(19,444)	(770)
Change in inventories		861	(250)
Change in trade payables and other liabilities		(5,150)	3,849
Cash flows from operations		277,747	257,728
Income taxes paid		(43,414)	(45,073)
Net cash flows from operating activities		234,333	212,655
Investing activities			
Purchase of property and equipment and intangible assets	11, 12, 23	(139,768)	(122,260)
Proceeds from disposal of property and equipment and intangible assets		8,942	1,611
Dividends received	8, 27	416	563
Increase of issued capital in subsidiary	14	-	(60)
Disbursement of loans		(114,000)	(200,000)
Repayment of loans		80,000	197,000
Acquisition of term deposits		(3,357)	(9,074)
Termination of term deposits		6,867	6,469
Interest received		208	170
Other charges paid for investing activities		-	(185)
Net cash flows used in investing activities		(160,692)	(125,766)
Financing activities			
Dividends paid	21	(66,637)	(61,232)
Repayment of financial payables	23	(17,061)	(12,977)
Other charges paid for financing activities		(8)	(24)
Net cash used in financing activities		(83,706)	(74,233)
Net (decrease) / increase in cash and cash equivalents		(10,065)	12,656
Cash and cash equivalents at 1 January	20	49,615	36,959
Cash and cash equivalents at 31 December	20	39,550	49,615

The accompanying Notes form an integral part of these Separate Financial Statements

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Slovak Telekom, a.s. ("the Company" or "Slovak Telekom") is a joint-stock company incorporated on 1 April 1999 in the Slovak Republic. The Company's registered office is located at Bajkalská 28, 817 62 Bratislava. The business registration number (IČO) of the Company is 35 763 469 and the tax identification number (DIČ) is 202 027 3893. For shareholders overview of the Company refer to Note 21.

Slovak Telekom is the largest Slovak multimedia operator providing its products and services under the Telekom brand via fixed and mobile networks. In terms of fixed networks the Company is the largest optical fibre and metallic cable broadband internet provider in the country (FTTX, ADSL and VDSL), providing digital television through state-of-the-art IPTV and DVB-S2 satellite technology. In the field of mobile communications the Company provides internet connectivity via several high-speed data transmission technologies - namely GPRS/EDGE, UMTS FDD/HSDPA/HSUPA and LTE. Slovak Telekom's customers receive roaming services in mobile operator networks in destinations all over the world. Slovak Telekom is considered the leader in the provision of telecommunication services to the most demanding segment of business customers, both in terms of the respective range of services as well as in terms of quality.

On 20 June 2017 Slovak Telekom was granted a licence for the provision of wireless services in the frequency band 3700 MHz in Bratislava by the Regulatory Authority for Electronic Communications and Postal Services ("Regulatory Authority"). The licence is valid until 31 December 2024. This authorisation complements the actual portfolio of frequencies held by Slovak Telekom: the LTE licence (bands 800 MHz and 2600 MHz) valid until 31 December 2028, authorisation for the provision of mobile services on 900 MHz and 1800 MHz frequency bands, which is valid up to 31 December 2025, and the UMTS licence for 2100 MHz frequency band (including the 28/29 GHz frequency band for backhaul connections), which is valid up to 31 August 2026.

Members of the Statutory Boards at 31 December 2018

BOARD OF DIRECTORS

Chairman:
- Ing. Miroslav Majoroš

Vice-chairman:
- Guido Manfred Menzel (until 22 June 2018)
- Jose Severino Perdomo Lorenzo (since 1 July 2018)

Member:
- Daria A. Dodonova

SUPERVISORY BOARD

Chairman:
- Hans-Peter Schultz (until 28 May 2018)
- Danijela Bujič (since 1 June 2018)

Members:
- Ing. Denisa Herdová
- Dr. Henning Never
- Ing. Drahoslav Letko
- Konstantina Bata

Deutsche Telekom Europe B.V. with registered office at Stationsplein 8 K, Maastricht, the Netherlands is the parent of the Company.

Deutsche Telekom AG ("Deutsche Telekom" or "DT AG"), with its registered office at Friedrich Ebert Allee 140, Bonn, Germany, is the ultimate parent of the group of which the Company is a member and for which the group financial statements are drawn up. The ultimate parent's consolidated financial statements are available at their registered office or at the District Court of Bonn HRB 6794, Germany.

2. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

This is the first set of the Company's annual financial statements in which IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have been applied. Changes to significant accounting policies are described in Note 2.21.

2.1 Basis of preparation

The financial statements have been prepared under the historical cost convention, except where disclosed otherwise.

The Company's functional currency is the Euro ("EUR"), the financial statements are presented in Euros and all values are rounded to the nearest thousands, except where otherwise indicated.

The financial statements were prepared using the going concern assumption that the Company will continue its operations for the foreseeable future.

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the separate financial statements are disclosed in Note 2.19.

Statement of compliance
These financial statements are the ordinary separate financial statements of the Company and have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations as adopted by the European Union ("IFRS"). These financial statements should be read together with the consolidated financial statements in order to obtain full information on the financial position, results of operations and changes in financial position of the Company and its subsidiaries.

The consolidated financial statements for the year ended 31 December 2018 have been prepared in compliance with International Financial Reporting Standards and IFRIC interpretations as adopted by the European Union. The consolidated financial statements are available at the Company's registered office, on the internet page of the Company and in the public administration information system (the Register) administered by the Ministry of Finance of the Slovak Republic.

2.2 Property and equipment

Property and equipment is initially measured at historical cost, excluding the costs of day-to-day servicing. Following initial recognition, property and equipment is carried at cost less any accumulated depreciation and provision for impairment, where required. The initial estimate of the costs of dismantling and removing the item of property and equipment and restoring the site on which it is located is also included in the costs, if the obligation incurred can be recognised as a provision according to IAS 37.

Historical cost includes all costs directly attributable to bringing the asset into working condition for its use as intended by the management. In case of network, costs comprise all expenditures, including internal costs directly attributable to network construction, and include contractors' fees, materials and direct labour. Costs of subsequent enhancement are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other maintenance, repairs and minor renewals are charged to the income statement as incurred.

An item of property 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 (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included within other operating income or costs in the income statement in the period in which the asset is derecognised. Net disposal proceeds consist of both cash consideration and the fair value of non-cash consideration received.

Depreciation is calculated on a straight-line basis from the time the assets are available for use over their estimated useful lives. Depreciation charge is identified separately for each significant part of an item of property and equipment.

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

Buildings and masts	50 years
Other structures	8 to 30 years
Duct, cable and other outside plant	8 to 50 years
Telecommunications equipment	4 to 30 years
Radio and transmission equipment	5 to 8 years
Other property and equipment	18 months to 30 years

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

Residual values and useful lives of property and equipment are reviewed and adjusted in accordance with IAS 8, where appropriate, at each financial year-end. For further details on groups of assets influenced by the most recent useful life revisions refer to Note 2.19.

Property and equipment are reviewed for impairment whenever events or circumstances indicate that their carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. Impairment losses are reversed if the reasons for recognizing the original impairment loss no longer apply.

2.3 Intangible assets

Intangible assets acquired separately are recognised when control over them is assumed and are initially measured at historical cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and provision for impairment, where required. Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. With the exception of goodwill, intangible assets have a finite useful life and are amortised using the straight-line method over their estimated useful lives. The assets' residual values and useful lives are reviewed and adjusted in accordance with IAS 8, as appropriate, at each financial year-end. For further details on the groups of assets influenced by the most recent useful life revisions refer to Note 2.19.

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

Software	2 to 16 years
Telecommunications licences	8 to 22 years
Content licences	1 to 4 years
Customer relationships	13 years

Any gain or loss on derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and is included within other operating income or costs in the income statement in the period in which the asset is derecognised.

Software and licences
Development costs directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the following criteria are met:

a) it is technically feasible to complete the software product so that it will be available for use;
b) management intends to complete the software product and use or sell it;
c) there is an ability to use or sell the software product;
d) it can be demonstrated how the software product will generate probable future economic benefits;
e) adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
f) the expenditures attributable to the software product during its development can be reliably measured.

Directly attributable costs capitalised as part of a software product include software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet recognition criteria and costs associated with maintaining computer software programs are recognised as an expense as incurred. Acquired software licences are capitalised on the basis of the costs incurred to acquire and bring to use specific software. Costs comprise all directly attributable costs necessary to create, produce and prepare the software to be capable of operating in a manner intended by the management, including enhancements of applications in use.

Costs associated with the acquisition of long term frequency licences are capitalised. Useful lives of concessions and licences are based on the underlying agreements and are amortised on a straight-line basis over the period from availability of the frequency for commercial use until the end of the initial concession or licence term. No renewal periods are considered in the determination of useful life. Recurring licence fees paid for key telecommunications licences may be subject to change and therefore cannot be reliably estimated over the duration of the licence term and are recognised as other operating costs in the period they relate to. Recurring licence fees are paid during whole period of granted licence.

The Company accounts for content licences as intangible assets if there is unavoidable obligation to pay for the content rights, there are no doubts that the content will be delivered and the cost can be reliably estimated. Acquired content licences are shown at historical cost. If there is no fixed price defined in the contract, the Company uses best estimate to assess the fee during the contracted period. The useful lives of content licences are based on the underlying agreements and are amortised on a straight-line basis over the period from availability for commercial use until the end of the licence term which is granted to the Company.

Goodwill
The goodwill previously recognised through the acquisition of the fully owned subsidiary T-Mobile was separately recognised in the statement of financial position of the integrated company Slovak Telekom as at 1 July 2010. Following initial recognition, goodwill is carried at cost less any accumulated impairment losses. Goodwill is not amortised but it is reviewed for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired (Note 13). Carrying value of goodwill is compared to its recoverable amount, which is the higher of value in use and fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed. Fair values less costs to sell of cash-generating units with allocated goodwill tested for impairment are in Level 3 of the fair value hierarchy.

2.4 Investments in subsidiaries

Investments in subsidiaries are carried at cost less any accumulated impairment losses. Cost of an investment in a subsidiary is based on cost attributed to the acquisition of the investment, representing fair value of the consideration given. Dividends received from subsidiaries are recognised as income when the right to receive dividend is established.

2.5 Impairment of non-financial assets

An impairment loss is the amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount. Assets that are subject to depreciation or amortisation are reviewed for impairment, whenever events or circumstances indicate that their carrying amount may not be recoverable. Assets with indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested for impairment annually. Impairment losses for each class of asset are disclosed within depreciation, amortisation and impairment losses in the income statement. Reversals of impairment losses are disclosed within other operating income in the income statement.

For the purpose of assessing impairment, assets are grouped into cash generating units, representing the smallest groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Company determines the recoverable amount of a cash-generating unit on the basis of fair value less costs of disposal. The calculation is determined by reference to discounted cash flows calculations. These discounted cash flows calculations are based on financial budgets approved by management, usually covering a ten-year period. Cash flows beyond the detailed planning periods are extrapolated using appropriate growth rates. Key assumptions on which management bases the determination of fair value less costs of disposal include average revenue per user, customer acquisition and retention costs, churn rates, capital expenditures, market share, growth rates and discount rates. Discount rates used reflect risks specific to the cash-generating unit. Cash flows reflect management assumptions and are supported by external sources of information. This is highly judgmental, which carries the inherent risk of arriving at materially different recoverable amounts if estimates used in the calculations proved to be inappropriate.

Investments in subsidiaries are tested for impairment if impairment indicators exist. The Company considers, as minimum, the following indicators of impairment: the carrying amount of the investment in the separate financial statements exceeds the carrying amounts of the investee's net assets in the consolidated financial statements, including associated goodwill or; the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared.

In addition to the general impairment testing of cash-generating units, the Company also tests individual assets if their purpose changes from being held and used to being sold or otherwise disposed of. In such circumstances the recoverable amount is determined by reference to fair value less costs to sell.

2.6 Inventories

Cost of inventories comprises all the costs of purchase and other costs incurred in bringing the inventories to their present location and condition, including customs, transportation and similar costs. Inventories are stated at the lower of cost and net realizable value. Cost of inventory is determined on the weighted average basis. Net realizable value is the estimated selling price in the ordinary course of business, less estimated selling expenses. An allowance is created against slow-moving and obsolete inventories.

Phone set inventory impairment allowances are recognised immediately when the phone sets are no longer marketable to secure subscriber contractual commitment or if the resale value on a standalone basis (without the subscriber commitment) is lower than cost.

2.7 Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand and short-term deposits with original maturity of three months or less from the date of acquisition.

For the purpose of the statement of cash flows, cash and cash equivalents are net of bank overdrafts. In the statement of financial position, bank overdrafts are included in borrowings in current liabilities.

2.8 Financial assets

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Trade receivables and debt securities issued by a debtor to the Company are initially recognised when they are originated. All other financial assets are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price determined under IFRS 15.

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

The Company has all financial assets classified and measured at amortised cost.

Financial assets at amortised cost (debt instruments)
This is the only category relevant to the Company. The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

The Company's financial assets at amortised cost include Trade and other receivables, Cash and cash equivalents, Term deposits and Loans in the statement of financial position. Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost.

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.9 Impairment of financial assets

The Company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost and contract assets. Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. For lease receivables, contract assets and trade receivables with a significant financing component, an entity can choose as an accounting policy either to apply the general model for measuring loss allowance or always to measure the loss allowance at an amount equal to the lifetime ECL. The Company has chosen the latter policy.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics. In assessing collective impairment, the Company uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends. Indicators used for analysing forward looking estimates, were chosen based on best practice relevant for telecommunication industry.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease is related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

2.10 Financial liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities and derivative financial instruments.

Trade and other payables
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are initially measured at fair value. After initial recognition trade and other payables are measured at amortised cost using the effective interest rate method.

2.11 Prepaid expenses

The Company has easement rights to use and access technological equipment sited in properties owned by third parties. These easements are presented within prepaid expenses in the statement of financial position. Easements are initially recognised at their net present value and amortised over their expected duration. Amortisation of easement rights is presented within other operating costs in the income statement.

2.12 Provisions and contingent liabilities

Provisions for asset retirement obligations, restructuring costs and legal and regulatory claims are recognised when: the Company 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 the amount has been reliably estimated.

If the effect of the time-value of money is material, provisions are discounted using a risk-adjusted, pre-tax discount rate. Where discounting is used, the increase in the provision due to the passage of time is recognised as a financial expense.

No provision is recognised for contingent liabilities. A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Asset retirement obligations
Asset retirement obligations relate to future costs associated with the retirement (dismantling and removal from use) of non-current assets. The obligation is recognised in the period in which it has been incurred and it is considered to be an element of cost of the related non-current asset in accordance with IAS 16. The obligation is measured at present value, and it is depreciated over the estimated useful life of the related non-current asset. Upon settlement of the liability, the Company either settles the obligation for its recorded amount or incurs a gain or loss upon settlement.

2.13 Employee benefit obligations

Retirement and other long-term employee benefits
The Company provides retirement and other long-term benefits under both defined contribution and defined benefit plans.

A defined contribution plan is a pension plan under which the Company pays fixed contributions into separate publicly or privately administered entities on a mandatory, contractual or voluntary basis. Once the contributions have been paid, the Company has no further payment obligations. The contribution is 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.

The Company also provides defined retirement and jubilee benefit plans granting certain amounts of pension or jubilee payments that an employee will receive on retirement, usually dependant on one or more factors such as an age, years of service and compensation. These benefits are unfunded. The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The last calculation was prepared on 31 December 2018. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using discount rate of weighted-average yields for high-quality (Bloomberg Aa*) - non-cancellable, non-putable corporate bonds. The currency and term of the bonds are broadly consistent with the currency and estimated term of the benefit obligations. Past service costs are recognised immediately in income statement. Remeasurement gains and losses arising from experience-based adjustments and changes in actuarial assumptions are recognised in the period in which they occur within other comprehensive income for retirement benefits and within the income statement for jubilee benefits. Current service cost, past service cost and curtailment gain are included within wages and salaries under staff costs. Interest costs are included within financial expense.

Termination benefits
Employee termination benefits are recognised in the period in which is the Company demonstrably committed to a termination without possibility of withdrawal, i.e. the management defines and authorises a detailed plan listing the number and structure of employees to be discharged and announces it to the trade unions. Expenses related to termination benefits are disclosed within staff costs in the income statement.

2.14 Revenue recognition

Revenue is recognised when the Company satisfies a performance obligation by transferring a promised good or service to a customer, who obtains control of that asset that means upon the delivery of services and products and customer's acceptance. Revenue from rendering of services and from sales of equipment is shown net of value added tax and discounts. Revenue is measured at the amount of transaction price that is allocated to the performance obligation.The Company recognises revenue as follows:

The Company provides customers with narrow and broadband access to its fixed, mobile and TV distribution networks. Service revenue is recognised when the services are provided in accordance with contractual terms and conditions. Airtime revenue is recognised based upon minutes of use and contracted fees less credits and adjustments for discounts, while subscription and flat rate revenue is recognised in the period they relate to.

Revenue from prepaid cards is recognised when credit is used by a customer or after period of limitation when unused credit elapsed.

Interconnect revenue generated from calls and other traffic that originates in other operators' networks is recognised as revenue at the time when the call is received in the Company'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 Company's network but use other operators' networks. Revenue from interconnect is recognised gross.

Content revenue is recognised gross or net of the amount due to a content provider. Depending on the nature of relationship with the content provider, gross presentation is used when the Company acts as a principal in the transaction with a final customer. Content revenue is recognised net if the Company acts as an agent, i.e. the content provider is responsible for service content and the Company does not assume risks and rewards of ownership.

In the case of multiple-element arrangements (e.g. mobile contract plus handset) with subsidised products delivered in advance, the transaction price is allocated to the performance obligations in the contract by reference to their relative standalone selling prices. Standalone selling prices of hardware are estimated using price list prices adjusted by margin haircut. Standalone selling prices of service are estimated using average transaction prices adjusted by margin haircut. As a result a larger portion of the total consideration is attributable to the component delivered in advance (mobile handset), requiring earlier recognition of revenue. This leads to the recognition of what is known as a contract asset – a receivable arising from the customer contract that has not yet legally come into existence – in the statement of financial position.

Some one-time fees (mainly activation fees which are generally paid at contract inception) not fulfil definition of a separate performance obligation but represent a prepayment on future services. Such one-time fees and advanced payments for post-paid services lead to recognition of contract liability which is recognised as revenue appropriately to the minimum contract term. When discounts on service fees are granted unevenly for specific months of a contract while monthly service is provided evenly to the customer, service revenues are recognised on a straight-lined basis.

In accordance with IFRS 15, constant monthly revenue amounts shall be recognized in a contract where performance over the months is constant. One or more discounts on service may be given for one or multiple periods. The discount period can start at the beginning or at a later point in time of the contract term. Additionally discounts may also be granted in stages, meaning that the discount size varies over the minimum contract term. Discounts are straightlined during minimum contract term by recognizing a contract asset, which is to be set up over the period with smaller payments and amortized over the remaining contract term.

The customer can be granted budgets for purchasing future goods and services either at contract inception or in the future by signing a frame contract which guarantees monthly minimum payment to the entity. The budget can be redeemed for hardware purchases and/or new services within the redemption period of the frame contract. A contract liability is created on a monthly basis until the budget is used. At the point of redemption revenue is realised in the amount of the relative standalone selling price of the material right.

Commision costs are assessed as incremental cost of obtaining a contract and are recognised as Contract costs. Contract costs are amortised during estimated customer retention period within dealers commision under other operating costs (related to indirect sales channel) and within wages and salaries under staff costs (related to direct sales channel).

The Company considers the effects of variable consideration and financing component as insignificant.

The Company typically satisfied its performace obligations at the point in time (mainly sales of equipment) and over time (services). The Company has no unusual payment terms.

Revenue from sales of equipment is recognised when control of that equipment is transferred to a customer and when the equipment delivery and installation is completed. Completion of an installation is a prerequisite for transfer of control on such equipment where installation is not simple in nature and functionally constitutes a significant component of the sale.

Revenue from operating leases of equipment is recognised on a straight-line basis over lease period.

System solutions / IT revenue
Contracts on network services, which consist of installations and operations of communication networks for customers, have an average duration of 2 to 3 years. Revenue from voice and data services is recognised under such contracts when voice and data are used by a customer. Revenue from system integration contracts comprising delivery of customised products and/or services is recognised when the control of that customised complex solution is transferred to a customer (solution is delivered to and accepted by a customer). Contracts are usually separated into distinct milestones which indicate completion, delivery and acceptance of a defined project phase. Upon completion of a milestone the Company is entitled to issuing an invoice and to a payment.

Revenue from maintenance services (generally a fixed fee per month) is recognised over time (during contractual period) or at point in time (when the services are completed). Revenue from repairs, which are not part of the maintenance contract but are billed on a basis of time and material used, is recognised when the services are provided.

Revenue from sale of hardware (including terminal equipment) and software is recognised when the control of that asset is transferred to a customer, provided there are no unfulfilled obligations that affect customer's final acceptance of the arrangement.

Interest and dividends
Interest income is recognised using the effective interest rate method. When a loan or receivable is impaired, the Company reduces its carrying amount to a recoverable amount. The recoverable amount is determined as an estimate of future cash flows discounted at the original effective interest rate of the instrument. Dividend income is recognised when the right to receive payment is established.

2.15 Leases

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

Leases in which significant portion of risks and rewards of ownership are 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 lease period.

When operating lease is terminated before the lease period has expired, any penalty payment to the lessor is recognised in income statement in the period in which the termination took place.

Contracts are analysed based on the requirements of IFRIC 4 and if they include embedded lease elements, revenue or income attributable to these is recognised in accordance with IAS 17.

Operating lease – the Company as lessor
Assets leased to customers under operating leases are included in property and equipment in the statement of financial position. They are depreciated over their expected useful lives on a basis consistent with similar assets. Rental income is recognised as revenue or other operating income on a straight-line basis over the lease term.

Operating lease – the Company as lessee
Costs of operating leases are charged to the income statement on a straight-line basis over the lease term.

Finance lease – the Company as lessor
Leases of assets where the Company transfers substantially all the risks and rewards of ownership are recognised and disclosed as revenue against finance lease receivable. The revenue equals to the estimated present value of future minimum lease payments receivable and any unguaranteed residual value (net investment in the lease). Cost of assets sold in finance lease transactions are recognised at the commencement of the lease. Each lease receipt is then allocated between lease receivable and interest income.

Finance lease – the Company as lessee
Leases of assets where the Company assumes substantially all the benefits and risks of ownership are classified as finance leases. The finance lease obligations are included in the statement of financial position in trade and other payables.

2.16 Operating profit

Operating profit is defined as a result before income taxes and financial income and expenses. For financial income and expenses refer to Notes 8 and 9 respectively.

2.17 Foreign currency translation

Transactions denominated in foreign currencies are translated into functional currency using exchange rates prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into functional currency using the exchange rates prevailing at the statement of financial position date. All foreign exchange differences are recognised within financial income or expense in the period in which they arise.

2.18 Taxes

Tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, tax is also recognised in other comprehensive income or directly in equity respectively.

Current income tax
Current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted as of the statement of financial position date. Current income tax includes additional levy imposed by the Slovak government on regulated industries effective from 1 September 2012. From 2017, the levy of 8.712% per annum is applied on the basis calculated as the profit before tax determined in accordance with the Slovak Accounting Standards multiplied by ratio of regulated revenues (according to Act on Electronic Communications Nr. 351/2011) on total revenues.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities.

Deferred tax
Deferred tax is calculated at the statement of financial position date using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts.

Deferred taxes are recognised for all taxable and deductible temporary differences, except for the deferred tax arising 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 nor taxable profit or loss.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.19 Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent liabilities reported at the end of the period and the reported amounts of revenue and expenses for that period. Actual results may differ from these estimates.

In the process of applying the Company's accounting policies, management has made the following judgements, estimates and assumptions which have the most significant effect on the amounts recognised in the financial statements:

Useful lives of non-current assets
The estimation of the useful lives of non-current assets is a matter of judgement based on the Company's experience with similar assets. The Company reviews the estimated remaining useful lives of non-current assets annually. 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 depreciation or amortisation period, as appropriate, and are treated as changes in accounting estimates. Management's estimates and judgements are inherently prone to inaccuracy, in particular for those assets for which no previous experience exists. The Company reviewed useful lives of non-current assets during 2018 and changed accounting estimates where appropriate. The table summarizes net (increase) or decrease in depreciation or amortisation charge for the following categories of non-current assets:

thousands of EUR	2018	2019	2020	2021	2022 and after
Telecommunications equipment	(242)	228	3	3	8
Radio and transmission equipment	(19)	5	4	3	7
Customer premises equipment	2,907	938	(244)	(1,461)	(2,140)
Other	(769)	51	26	(57)	749
	1,877	1,222	(211)	(1,512)	(1,376)

Assessment of impairment of goodwill
The 2010 legal merger with T-Mobile led to recognition of goodwill. Goodwill is tested annually for impairment as further described in Note 2.5 using estimates detailed in Note 13.

Asset retirement obligation
The Company enters into lease contracts for land and premises on which mobile communication network masts are sited. The Company is committed by these contracts to dismantle the masts and restore the land and premises to their original condition. Management anticipates the probable settlement date of the obligation to equal useful life of mast, which is estimated to be 50 years. The remaining useful life of masts ranges from 25 to 50 at 31 December 2018.

Management's determination of the amount of the asset retirement obligation (Note 22) involves the following estimates (in addition to the estimated timing of crystallisation of the obligation):

a) an appropriate risk-adjusted, pre-tax discount rate commensurate with the Company's credit standing;
b) the amounts necessary to settle future obligations;
c) inflation rate.

If probable settlement date of the obligation was shortened by 10 years (from 50 years to 40 years) it would cause an increase of asset retirement obligation by EUR 2,737 thousand. If the inflation rate increased by 0.5%, it would cause an increase of asset retirement obligation by EUR 3,207 thousand. If the risk-adjusted, pre-tax discount rate increased by 0.5%, it would cause a decrease of asset retirement obligation by EUR 2,638 thousand. If the amounts necessary to settle future obligations increased by 10%, it would cause an increase of asset retirement obligation by EUR 1,606 thousand.

Provisions and contingent liabilities
The Company is a participant in several lawsuits and regulatory proceedings. When considering the recognition of a provision, management judges the probability of future outflows of economic resources and its ability to reliably estimate such future outflows. If these recognition criteria are met a provision is recorded in the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Such judgments and estimates are continually reassessed taking into consideration the developments of the legal cases and proceedings and opinion of lawyers and other subject matter experts involved in resolution of the cases and proceedings. The factors considered for individual cases are described in Notes 22 and 28.

2.20 Comparatives

Income from material sold is presented brutto in 2018 financial statements (income from material sold is presented within Other operating income, cost of material sold is presented within Other operating costs). In 2017 financial statements income from material sold was presented netto, within Other operating income (EUR 897 thousand). This comparative information has been changed in order to conform to the current year presentation and in accordance with IAS 1.38 for the purpose of comparability of data and reported periods.

The Company has initially applied IFRS 15 and IFRS 9 at 1 January 2018. It has applied IFRS 15 using the modified retrospective method, under which the comparative information is not restated. It has also taken advantage of the exemption from restating prior periods in respect of IFRS 9's classification and measurement (including impairment) requirements.

Adoption of IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15 and IFRS 9, the Company has adopted the new rules retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application as an adjustment to the opening balance of retained earnings as at 1 January 2018.

In summary, the following adjustments were made to the amounts recognised in the statement of financial position at the date of initial application (1 January 2018):

thousands of EUR	IAS 18 Carrying amount 31 December 2017	IFRS 15 Reclassification	IFRS 15 Remeasurements	IFRS 9 Remeasurements	IFRS 15 Carrying amount 1 January 2018
Noncurrent assets					
Prepaid expenses and other assets	13,555	(164)	(2,276)	-	11,115
Contract assets	-	-	20,857	-	20,857
Contract costs	-	164	5,501	-	5,665
Current assets					
Trade and other receivables	102,930	-	-	(2,955)	99,975
Prepaid expenses and other assets	8,082	(476)	(1,184)	-	6,422
Contract assets	-	-	47,147	-	47,147
Contract costs	-	476	15,690	-	16,166
Equity					
Retained earnings and profit for the year	66,637	-	54,471	(2,334)	118,774
Noncurrent liabilities					
Contract liabilities	-	517	4,145	-	4,662
Other liabilities and deferred income	5,362	(517)	(4,410)	-	435
Deferred tax	80,905	-	14,480	(621)	94,764
Current liabilities					
Contract liabilities	-	29,499	19,339	-	48,838
Other liabilities and deferred income	65,788	(29,499)	(2,290)	-	33,999

IFRS 9 remeasurement related to Trade and other receivables of EUR 2,955 thousand consists of change in standard receivables (EUR 1,693 thousand) and change in receivables from contract penalties (EUR 1,262 thousand).

Reconciliation of opening balance of retained earnings and profit for the year:

thousands of EUR	
Retained earnings as of 31 December 2017	66,637
Impact of IFRS 9	(2,955)
Impact of IFRS 15	68,951
Deferred tax related to IFRS 9 and IFRS 15	(13,859)
Opening retained earnings 1 January 2018	118,774

Amounts of adjustments related to application of IFRS 15 and IFRS 9 as at 31 December 2018 for each financial statements lines affected are as follows:

thousands of EUR	2018	IFRS 15 Reclassification	IFRS 15 Remeasurement	IFRS 9 Remeasurement	2018 without IFRS 15 and IFRS 9
Statement of financial position					
Non-current assets					
Prepaid expenses and other assets	11,063	31	1,232	-	12,326
Contract assets	23,727	-	(23,727)	-	-
Contract costs	5,213	(31)	(5,182)	-	-
Current assets					
Trade and other receivables	105,482	-	-	5,584	111,066
Prepaid expenses and other assets	13,268	134	1,972	-	15,374
Contract assets	47,702	-	(47,702)	-	-
Contract costs	15,159	(134)	(15,025)	-	-
Equity					
Retained earnings and profit for the year	158,439	-	(54,830)	6,757	110,366
Non-current liabilities					
Contract liabilities	4,531	(775)	(3,756)	-	-
Other liabilities and deferred income	242	775	3,199	-	4,216
Deferred tax	89,431	-	(14,619)	(1,173)	73,639
Current liabilities					
Contract liabilities	50,317	(29,485)	(20,832)	-	-
Other liabilities and deferred income	32,094	29,485	2,406	-	63,985

thousands of EUR	2018	IFRS 15 Remeasurement	IFRS 9 Remeasurement	2018 without IFRS 15 and IFRS 9
Income statement				
Revenues	695,579	(3,098)	1,216	693,697
Staff costs - Wages and salaries	(88,065)	(154)	-	(88,219)
Impairment losses on financial and contract assets	(6,555)	1,872	1,413	(3,270)
Other operating costs - Dealers commissions	(20,460)	719	-	(19,741)
Deferred tax income	5,338	139	(552)	4,925
Loss / (profit) for the year		(522)	2,077	

2.21 Adoption of IFRS during the year

Standards, interpretations and amendments to published standards effective for the Company's accounting period beginning on 1 January 2018

- IFRS 9, Financial Instruments (as revised in July 2014, effective for annual periods beginning on or after 1 January 2018). The standard includes a model for classification and measurement, a single, forward-looking "expected loss" impairment model and substantially reformed approach to hedge accounting.

- IFRS 15, Revenue from Contracts with Customers (issued in May 2014, effective for annual periods beginning on or after 1 January 2018). The standard replaced IAS 18 which covered contracts for goods and services and IAS 11 which covered construction contracts. The IFRS 15 standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

For impact of application of standards IFRS 9 and IFRS 15 please refer to Note 2.20. The other amended standards and interpretations do not have a significant impact on the Company's financial statements.

Standards, interpretations and amendments to published standards that have been published, are not effective for accounting periods starting on 1 January 2018 and which the Company has not early adopted

- IFRS 16 Leases, issued in January 2016 and effective for annual periods beginning on or later 1 January 2019, with earlier application permitted (as long as IFRS 15 is also applied).

  - It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. Each lease payment will be allocated between the liability and finance cost. The finance cost will be charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset will be depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

  - In the same way are treated also leases with a lease term up to 12 months and low-value leases, even though the standard permits exceptions for short-term and low-value leases. In compliance with the Company policy this exemption is not applied and the Company has a unified approach for all leases to avoid misleading accounting.
    IFRS 16 provides also practical expedient that permits lessees to make an accounting policy election, by class of underlying asset, to account for each separate lease component of a contract and any associated non-lease components as a single lease component. The Company will apply this practical expedient (accounting policy election), and therefore non-lease components which are fixed and paid to lessor, e.g. utilities, maintenance costs, insurance services, etc. will not be separated, but capitalised.

  - The Company has set up a project team which has reviewed all of the Company's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The Company leases various properties, technical infrastructure, equipment and cars. The standard will affect primarily the accounting for operating leases where a Company is a lessee.

  - As at the reporting date, the Company has non-cancellable operating lease commitments of EUR 56.4 million, see Note 26. For the remaining lease commitments the Company expects to recognise right-of-use assets of approximately EUR 110 million on 1 January 2019 and lease liabilities of EUR 101 million (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018). Overall net assets will be approximately EUR 9 million higher, and net current assets will be EUR 17 million lower due to the presentation of a portion of the liability as a current liability.
    The Company expects that net profit after tax will decrease by approximately EUR 2.5 million for 2019 as a result of adopting the new rules.

  - Operating cash flows will increase and financing cash flows decrease by approximately EUR 15 million as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

  - The Company will apply the standard from its mandatory adoption date of 1 January 2019. The Company intends to apply modified retrospective approach and will not restate comparative amounts for the year prior to first adoption. Instead, the Company will provide an explanation of the reasons for the changes in items in the statement of financial position and the income statement for the current period as a result of applying IFRS 16 for the first time. All right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

The other amended standards and interpretations are not expected to have a significant impact on the Company's financial statements.

2.22 Accounting policies before 1 January 2018

Accounting policies applicable to the comparative period ended 31 December 2017 that were amended by IFRS 9 and IFRS 15, are as follows.

2.22.1 Financial assets

The Company classifies its financial assets as: loans and receivables, financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. The Company determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end. Regular purchases and sales of financial assets are recognised on the trade date – the date on which the Company commits to purchase or sell the asset. When financial assets are recognised, they are initially measured at fair value, plus, in case of investments not held at fair value through profit or loss, directly attributable transaction costs. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement.

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the asset have expired or the Company has transferred its rights to receive cash flows from the asset and has transferred substantially all the risks and rewards of the ownership.

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Trade receivables are amounts due from customers for services performed or merchandise sold in the ordinary course of business. Trade and other receivables are included in current assets, except for maturities greater than 12 months after the financial year-end. These are classified as non-current assets. Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest rate method, less allowance for impairment. For the purpose of impairment evaluation, trade receivables are grouped together on the basis of similar credit risk characteristics, tested collectively for impairment and written down, if necessary. The amount of impairment loss recognised is the difference between the asset´s carrying amount and present value of estimated future cash flows which are based on the past experience of the collectability of overdue receivables. Allowance for impairment reflects the estimated credit risk.

When a trade receivable for which an allowance was recognised becomes uncollectible or sold, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised within other operating income in the income statement.

Amounts payable to and receivable from the same international telecommunication operators are shown net in the statement of financial position when a legally enforceable right to set-off exists and the Company intends to settle them on a net basis.

Finance lease receivables
Where Company is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins), using a discount rate determined at inception. The difference between the gross receivable and the present value represents unearned finance income which is recognised over the term of the lease using the effective interest rate method.

2.22.2 Impairment of financial assets

The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Impairment losses of financial assets reduce their carrying amount and are recognised in the income statement against allowance accounts. Upon derecognition of a financial asset the net carrying amount includes any allowance for impairment. Any gains or losses on derecognition are calculated as the difference between the proceeds from disposal and the net carrying amount and are presented in the income statement.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

2.22.3 Financial liabilities

There are two measurement categories for financial liabilities used by the Company: financial liabilities carried at amortised costs represented by trade and other payables and financial liabilities at fair value through profit or loss. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Trade and other payables
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are initially measured at fair value. After initial recognition trade and other payables are measured at amortised cost using the effective interest rate method.

2.22.4 Revenue recognition

Revenue is recognised upon the delivery of services and products and customer acceptance thereof and to the extent that: it is probable that economic benefits will flow to the Company; the revenue can be measured reliably and when specific criteria as stated below have been met. Revenue from rendering of services and from sales of equipment is shown net of value added tax and discounts. Revenue is measured at the fair value of consideration received or receivable.

The Company recognises revenue as follows:

The Company provides customers with narrow and broadband access to its fixed, mobile and TV distribution networks. Service revenue is recognised when the services are provided in accordance with contractual terms and conditions. Airtime revenue is recognised based upon minutes of use and contracted fees less credits and adjustments for discounts, while subscription and flat rate revenue is recognised in the period they relate to.

Revenue from prepaid cards is recognised when credit is used by a customer or after period of limitation when unused credit elapsed.

Interconnect revenue generated from calls and other traffic that originates in other operators' networks is recognised as revenue at the time when the call is received in the Company'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 Company's network but use other operators' networks. Revenue from interconnect is recognised gross.

Content revenue is recognised gross or net of the amount due to a content provider. Depending on the nature of relationship with the content provider, gross presentation is used when the Company acts as a principal in the transaction with a final customer. Content revenue is recognised net if the Company acts as an agent, i.e. the content provider is responsible for service content and the Company does not assume risks and rewards of ownership.

Revenue from multiple revenue arrangements 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. When separable components have been identified, an amount received or receivable from a customer is allocated to individual deliverables based on each component's fair value. Amount allocable to a delivered item(s) is limited to the amount that is not contingent upon the delivery of additional items or meeting other specified performance conditions (the non-contingent amount). The revenue relating to the item(s) is recognised when risks and rewards are transferred to the customer which occurs on delivery. Revenue relating to the service element is recognised on a straight-line basis over the service period.

Revenue from sales of equipment is recognised when the equipment is delivered and installation is completed. Completion of an installation is a prerequisite for recognizing revenue on such sales of equipment where installation is not simple in nature and functionally constitutes a significant component of the sale.

Revenue from operating leases of equipment is recognised on a straight-line basis over lease period.

System solutions / IT revenue
Contracts on network services, which consist of installations and operations of communication networks for customers, have an average duration of 2 to 3 years. Revenue from voice and data services is recognised under such contracts when voice and data are used by a customer. Revenue from system integration contracts comprising delivery of customised products and/or services is recognised when the customised complex solution is being delivered and accepted by a customer. Contracts are usually separated into distinct milestones which indicate completion, delivery and acceptance of a defined project phase. Upon completion of a milestone the Company is entitled to issuing an invoice and to a payment.

Revenue from maintenance services (generally a fixed fee per month) is recognised over the contractual period or when the services are provided. Revenue from repairs, which are not part of the maintenance contract but are billed on a basis of time and material used, is recognised when the services are provided.

Revenue from sale of hardware (including terminal equipment) and software is recognised when risks of ownership are substantially transferred to a customer, provided there are no unfulfilled obligations that affect customer's final acceptance of the arrangement.

Interest and dividends
Interest income is recognised using the effective interest rate method. When a loan or receivable is impaired, the Company reduces its carrying amount to a recoverable amount. The recoverable amount is determined as an estimate of future cash flows discounted at the original effective interest rate of the instrument. Dividend income is recognised when the right to receive payment is established.

2.22.5 Significant accounting judgements, estimates and assumptions related to activation fees, subscriber acquisition and retention costs

The Company defers activation; non-refundable up-front fees in cases when the delivery of products or rendering of services does not present a separate earnings process and the activation fees are not offset by a delivered product or rendered services. This period is estimated on a basis of an anticipated term of customer relationship under the arrangement which generated the activation fee. The estimated customer relationship period is reassessed at each financial year-end. Costs incurred in direct relation to customer activation (such as SIM card costs and commissions) are deferred to the extent of activation revenue and amortised in the same manner as the activation fees. Other subscriber acquisition costs, which primarily include losses on subsidised handsets and hardware, are expensed as incurred.

3. FINANCIAL RISK MANAGEMENT

The Company is exposed to a variety of financial risks. The Company's risk management policy addresses the unpredictability of financial markets and seeks to minimize potential adverse effects on the performance of the Company.

The Company's financial instruments include cash and cash equivalents, loans and term deposits. The main purpose of these instruments is to manage the liquidity of the Company.

The Company holds financial assets which represent its investment in subsidiaries. These financial assets are deemed to be long-term.

The Company has various other financial assets and liabilities such as trade and other receivables and trade and other payables which arise from its operations.

The main risks arising from the Company's financial instruments are market risk, credit risk and liquidity risk. The Treasury is responsible for financial risk management, in accordance with guidelines approved by the Board of Directors and the Deutsche Telekom Group Treasury. The Treasury works in association with the Company's operating units and with the Deutsche Telekom Group Treasury. There are policies in place to cover specific areas, such as market risk, credit risk, liquidity risk and the investment of excess funds.

3.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign currency risk, interest rate risk and other price risk.

3.1.1 Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of change in foreign exchange rates.

The Company is exposed to transactional foreign currency risk arising from international interconnectivity. In addition, the Company is exposed to risks arising from capital and operational expenditures denominated in foreign currencies.

For all planned, but not yet determined, foreign currency denominated cash flows (uncommitted exposure) of the following 12 months (rolling 12 month approach) a hedging ratio of at least 50% is applied. The Company uses term deposits in foreign currencies to hedge these uncommitted exposures (Note 18).

Short-term cash forecasts are prepared on a rolling basis to quantify the Company's expected exposure. The Company's risk management policy requires the hedging of every cash flow denominated in foreign currency exceeding the equivalent of EUR 250 thousand.

The Company's foreign currency risk relates mainly to the changes in USD foreign exchange rates, with immaterial risk related to financial assets and financial liabilities denominated in other foreign currencies.

The following table details the sensitivity of the Company's profit before tax and equity to a 10% increase/decrease in the USD against EUR, with all other variables held as constant. The 10% change represents management's assessment of the reasonably possible change in foreign exchange rate and is used when reporting foreign currency risk internally in line with treasury policies.

thousands of EUR		2018	2017
Profit before tax	Depreciation of USD by 10%	(166)	(270)
	Appreciation of USD by 10%	166	270
Equity	Depreciation of USD by 10%	(132)	(214)
	Appreciation of USD by 10%	132	214

3.1.2 Interest rate risk

The Company's income and operating cash flows are substantially independent of changes in market interest rates. The Company entered into a master agreement with DT AG in October 2008 based on which the Company can provide loans to DT AG. Currently, there is outstanding loan in amount of EUR 217,000 thousand (2017: EUR 183,000 thousand) at fixed interest rate (Note 19). The term deposits in banks outstanding at 31 December 2018 in the amount of EUR 3,432 thousand (2017: EUR 6,336 thousand) have been concluded with fixed interest rate (Note 18). The Company has no material financial instruments with variable interest rates as at 31 December 2018.

3.1.3 Other price risk

Other price risk arises on financial instruments because of changes in commodity prices or equity prices. However, there are no such financial instruments that would have been materially impacted from changes in commodity prices.

3.2 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Company is exposed to credit risk from its operating activities and certain financing activities. The Company's credit risk policy defines products, maturities of products and limits for financial counterparties. The Company limits credit exposure to individual financial institutions on the basis of the credit ratings assigned to these institutions by reputable rating agencies and these limits are reviewed on a regular basis. The Company is exposed to concentration of credit risk from holding loan receivable in the amount of EUR 217,000 thousand (2017: EUR 183,000 thousand) provided to DT AG (Germany) and trade receivables from DT AG, subsidiaries and other entities in DT group in amount of EUR 22,372 thousand (2017: EUR 14,391 thousand).

For credit ratings see the following tables:

thousands of EUR	2018	2017
Term deposits (Note 18)		
A2	3,432	6,336
	3,432	6,336

thousands of EUR	2018	2017
Loans (Note 19)		
Baa1	217,000	183,000
	217,000	183,000

thousands of EUR	2018	2017
Cash and cash equivalents (Note 20)		
Aa3	-	2
A2	23,525	25,432
A3	15,607	23,241
Baa1	-	355
Not rated	418	585
	39,550	49,615

Further, counterparty credit limits and maximum maturity can be decreased based on recommendation by Deutsche Telekom Group Treasury in order to manage bulk risk steering of Deutsche Telekom Group. Group credit risk steering takes into account various risk indicators including, but not limited to CDS level, rating and negative movement of the share price of the counterparty.

IFRS 9 introduced a new, expected-loss impairment model that requires more timely recognition of expected credit losses. Specifically, the Standard requires entities to account for expected credit losses rather than only incurred credit losses as was the case under IAS 39. The Company establishes an allowance for impairment that represents its estimate of expected credit losses in respect of trade, other receivables and contract assets. Cash and cash equivalents and intercompany receivables are also subject to the impairment requirements of IFRS 9, however, the identified impairment loss was immaterial.

Impairment losses are recognised to cover both individually significant credit risk exposures and a collective loss component for assets that are assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables includes the Company's past experience of collecting payments, changes in the internal and external ratings of customers, current conditions and the Company's view of economic conditions over the expected lives of the receivables.

In respect of financial assets, which comprise cash and cash equivalents, loans, term deposits, trade and other receivables, the Company's exposure to credit risk arises from the potential default of the counterparty, with a maximum exposure equal to the carrying amount of these financial assets.

The Company assesses its financial investments at each reporting date to determine whether there is any objective evidence that they are impaired. A financial investment is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that investment. Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. An impairment loss in respect of a financial asset is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. The reversal of the impairment loss is recognised in profit or loss.

The table summarises the ageing structure of receivables based on IFRS 9:

		Past due					
thousands of EUR	Not past due	< 30 days	31-90 days	91-180 days	181-365 days	> 365 days	Total
At 31 December 2018							
Trade and other receivables	91,213	3,893	4,427	1,602	1,343	4,385	106,864

The table summarises the ageing structure of receivables in 2017 based on IAS 39:

		Past due but not impaired						
thousands of EUR	Neither past due nor impaired	< 30 days	31-90 days	91-180 days	181-365 days	> 365 days	Impaired	Total
At 31 December 2017								
Trade and other receivables	87,207	498	128	587	1,079	1,958	13,107	104,564

No significant individually impaired trade receivables were included in the allowance for impairment losses in 2018 and 2017.

Trade receivables that are past due as at 31 December 2018, but not individually impaired, are from creditworthy customers who have a good track record with the Company and, based on historical default rates, management believes that no additional impairment allowance is necessary. Management also believes that currently no additional impairment allowance is necessary to trade receivables that are neither past due nor impaired.

For sensitivity of impairment charge of uncollectible receivables refer to Note 15.

3.3 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Company's liquidity risk mitigation principles define the level of cash and cash equivalents, marketable securities and the credit facilities available to the Company to allow it to meet its 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 and cash equivalents and credit facilities available on demand.

The table summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

thousands of EUR	On demand	Less than 3 months	3 to 12 months	Over 1 year	Total
At 31 December 2018					
Trade and other payables	4,664	105,827	3,373	2,547	116,411
At 31 December 2017					
Trade and other payables	2,748	117,193	7,416	2,730	130,087

The Company has granted credit limit to subsidiary DIGI SLOVAKIA, s.r.o. in amount of EUR 5,000 thousand with interest rate 1M Euribor + 1% margin. The limit was not used as at 31 December 2018.

Offsetting financial assets and liabilities
The following financial assets and liabilities are subject to offsetting:

thousands of EUR	Gross amounts	Offsetting	Net amounts
At 31 December 2018			
Current financial assets – Trade receivables	8,522	(6,814)	1,708
Current financial liabilities – Trade payables	8,131	(6,814)	1,317
At 31 December 2017			
Current financial assets – Trade receivables	7,294	(4,896)	2,398
Current financial liabilities – Trade payables	6,747	(4,896)	1,851

For the Company's accounting policy on offsetting refer to Note 2.8.

3.4 Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholder and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

The Company's management proposes to the owner of the Company (through the Board of Directors) to approve dividend payments or adopt other changes in the Company's equity capital in order to optimize the capital structure of the Company. This can be achieved primarily by adjusting the amount of dividends paid to shareholder, or alternatively, by returning capital to shareholder by capital reductions, issue new shares or sell assets to reduce debt. The Company also takes into consideration any applicable guidelines of the ultimate parent company. No changes were made to the objectives, policies or processes in 2018.

The capital structure of the Company consists of equity attributable to shareholder, comprising issued capital, statutory reserve fund, retained earnings and other components of equity (Note 21). The management of the Company manages capital measured in terms of shareholder's equity amounting to at 31 December 2018 EUR 1,192,561 thousand (2017: EUR 1,100,740 thousand).

3.5 Fair values

Fair value measurement is analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

3.5.1 Recurring fair value measurement

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting year. There were no recurring fair value measurements in 2018 and 2017.

3.5.2 Non-recurring fair value measurement

There were no non-recurring fair value measurements in 2018 and 2017.

3.5.3 Financial assets and financial liabilities not measured at fair value

The fair value of other financial assets and financial liabilities approximate their carrying amounts at the statement of financial position date. Non-current receivables and non-current payables are discounted unless the effect of discounting was inconsiderable.

3.6 Presentation of financial instruments by measurement category

thousands of EUR	2018	2017
ASSETS		
Financial assets at amortised cost		
Trade and other receivables (Note 15)	106,864	104,564
Term deposits (Note 18)	3,432	6,336
Loans (Note 19)	217,000	183,000
Cash and cash equivalents (Note 20)	39,550	49,615
LIABILITIES		
Financial liabilities at amortised cost		
Trade and other payables (Note 23)	116,411	130,087

4. REVENUE

thousands of EUR	2018	2017
Fixed network revenue	246,858	245,442
Mobile network revenue	281,065	333,263
Terminal equipment	90,596	33,280
System solutions / IT	48,535	42,697
Other	28,525	29,354
	695,579	684,036

5. STAFF COSTS

thousands of EUR	2018	2017
Wages and salaries	88,065	86,548
Defined contribution pension costs	12,640	12,596
Other social security contributions	13,202	14,879
	113,907	114,023

	2018	2017
Number of employees at year end	2,999	3,015
Average number of employees during the year	2,992	2,985

6. OTHER OPERATING INCOME

thousands of EUR	2018	2017
Gain on disposal of property and equipment and intangible assets, net	5,309	349
Income from material sold	9,547	7,183
Income from rental of premises	2,741	2,637
Reversal of impairment of property and equipment (Note 11)	655	423
Income from marketing activities	3,849	3,604
Reinvoicing of TV and employee related costs to subsidiary DIGI	7,420	6,786
Other	3,580	4,423
	33,101	25,405

7. OTHER OPERATING COSTS

thousands of EUR	2018	2017
Repairs and maintenance	15,686	15,445
Installation services	251	921
Marketing costs	13,954	15,684
Energy	13,359	12,741
Printing and postage	4,491	4,169
Logistics	4,354	4,586
Rentals and leases	19,108	18,638
IT services	6,657	6,675
Material sold	8,361	6,286
Dealer commissions	20,460	18,811
Recurring frequency and other fees to Regulatory Authority	4,771	4,757
Content fees	12,422	13,669
Legal and regulatory claims (Note 28)	202	17,904
Consultancy	2,721	1,510
Services related to delivery of solutions for customers	32,226	30,017
Fees paid to DT AG group	5,100	4,733
Other	14,934	15,816
Own work capitalised	(17,916)	(18,129)
	161,141	174,233

8. FINANCIAL INCOME

thousands of EUR	2018	2017
Dividends from subsidiaries (Note 27)	416	563
Interest on term deposits and bank accounts	131	140
Interest on loans	-	13
Interest from finance lease	-	4
Foreign exchange gains, net	127	-
Other	720	740
	1,394	1,460

9. FINANCIAL EXPENSE

thousands of EUR	2018	2017
Interest costs on employee benefits provision	205	186
Interest cost on other non-current provisions	489	443
Foreign exchange losses, net	-	267
Bank charges and other financial expense	8	24
	702	920

10. TAXATION

The major components of income tax expense for the years ended 31 December are:

thousands of EUR	2018	2017
Current tax expense	34,372	34,658
Current tax expense of prior years	151	2,888
Deferred tax income	(5,338)	(8,376)
Levy on regulated industries	9,214	6,784
Income tax expense reported in the income statement	38,399	35,954

Reconciliation between the reported income tax expense and the theoretical amount that would arise using the statutory tax rate is as follows:

thousands of EUR	2018	2017
Profit before income tax	144,701	102,591
Income tax calculated at the statutory rate of 21% (2017: 21%)	30,387	21,544
Effect of non-taxable income and tax non-deductible expenses:		
Dividends	(87)	(118)
Cost related to legal and regulatory claims	33	3,728
Other tax non-deductible items, net	(1,299)	1,128
Tax charge in respect of prior years	151	2,888
Levy on regulated industries	9,214	6,784
Income tax at the effective tax rate of 27% (2017: 35%)	38,399	35,954

Deferred tax assets (liabilities) for the year ended 31 December are attributable to the following items:

thousands of EUR	1 January 2018	Through equity (change in accounting policy)	Through income statement	Through statement of comprehensive income	31 December 2018
Difference between carrying and tax value of fixed assets	(97,842)	-	3,762	-	(94,080)
Staff cost accruals	2,553	-	(174)	-	2,379
Allowance for bad debts	2,851	621	109	-	3,581
Termination benefits	323	-	762	-	1,085
Retirement benefit obligation	2,774	-	(16)	(5)	2,753
Asset retirement obligation	3,671	-	(296)	-	3,375
Contract assets	-	(14,281)	(719)	-	(15,000)
Contract costs	-	(4,450)	206	-	(4,244)
Contract liability	-	4,932	232	-	5,164
Other	4,765	(681)	1,472	-	5,556
Net deferred tax liability	(80,905)	(13,859)	5,338	(5)	(89,431)

thousands of EUR	1 January 2017	Through income statement	Through statement of comprehensive income	31 December 2017
Difference between carrying and tax value of fixed assets	(104,490)	6,648	-	(97,842)
Staff cost accruals	2,245	308	-	2,553
Allowance for bad debts	2,682	169	-	2,851
Termination benefits	915	(592)	-	323
Retirement benefit obligation	2,532	130	112	2,774
Asset retirement obligation	2,692	979	-	3,671
Other	4,031	734	-	4,765
Net deferred tax liability	(89,393)	8,376	112	(80,905)

thousands of EUR	2018	2017
Deferred tax asset to be settled within 12 months	17,543	11,010
Deferred tax asset to be settled after more than 12 months	7,229	6,821
Deferred tax liability to be settled within 12 months	(15,846)	(894)
Deferred tax liability to be settled after more than 12 months	(98,357)	(97,842)
Net deferred tax liability	(89,431)	(80,905)

11. PROPERTY AND EQUIPMENT

thousands of EUR	Land, buildings and structures	Duct, cable and other outside plant	Telecommu-nications equipment	Radio and transmission equipment	Other	Capital work in progress including advances	Total
At 1 January 2018							
Cost	176,791	1,025,255	489,585	208,368	303,108	61,779	2,264,886
Accumulated depreciation	(97,948)	(615,708)	(446,100)	(162,381)	(227,487)	(333)	(1,549,957)
Net book value	78,843	409,547	43,485	45,987	75,621	61,446	714,929
Additions	1,098	17,550	5,071	4,485	15,195	44,615	88,014
Depreciation charge	(3,479)	(36,410)	(16,162)	(15,685)	(20,958)	-	(92,694)
Impairment charge	-	-	(90)	-	(76)	-	(166)
Reversal of impairment	16	305	25	1	26	282	655
Disposals	(5,731)	(16)	(24)	(72)	(490)	(13)	(6,346)
Transfers	2,252	9,388	11,231	6,412	8,516	(37,799)	-
At 31 December 2018							
Cost	168,352	1,045,631	451,100	171,955	307,538	68,545	2,213,121
Accumulated depreciation	(95,353)	(645,267)	(407,564)	(130,827)	(229,704)	(14)	(1,508,729)
Net book value	72,999	400,364	43,536	41,128	77,834	68,531	704,392

Property and equipment, excluding motor vehicles, is locally insured to a limit of EUR 25,000 thousand (2017: EUR 25,000 thousand). Any loss exceeding local limit is insured by DT AG Global Insurance Program up to EUR 700,000 thousand. The Company has the third party liability insurance for all motor vehicles.

thousands of EUR	Land, buildings and structures	Duct, cable and other outside plant	Telecommu-nications equipment	Radio and transmission equipment	Other	Capital work in progress including advances	Total
At 1 January 2017							
Cost	175,906	1,006,845	505,004	269,859	312,016	56,236	2,325,866
Accumulated depreciation	(98,544)	(580,786)	(453,528)	(225,042)	(236,436)	(434)	(1,594,770)
Net book value	77,362	426,059	51,476	44,817	75,580	55,802	731,096
Additions	4,510	11,770	2,912	4,854	7,250	51,388	82,684
Depreciation charge	(3,455)	(35,145)	(16,536)	(16,448)	(26,352)	-	(97,936)
Impairment charge	(57)	(28)	(1)	(17)	(151)	-	(254)
Reversal of impairment	-	3	161	-	236	23	423
Disposals	(715)	1	(40)	(1)	(227)	(102)	(1,084)
Transfers	1,198	6,887	5,513	12,782	19,285	(45,665)	-
At 31 December 2017							
Cost	176,791	1,025,255	489,585	208,368	303,108	61,779	2,264,886
Accumulated depreciation	(97,948)	(615,708)	(446,100)	(162,381)	(227,487)	(333)	(1,549,957)
Net book value	78,843	409,547	43,485	45,987	75,621	61,446	714,929

12. INTANGIBLE ASSETS

thousands of EUR	Software	Licences	Internally developed intangible assets	Goodwill	Customer relationships	Intangibles under construction	Total
At 1 January 2018							
Cost	507,468	234,858	4,879	73,313	249,532	24,783	1,094,833
Accumulated amortisation	(458,038)	(128,554)	(2,273)	-	(249,532)	-	(838,397)
Net book value	49,430	106,304	2,606	73,313	-	24,783	256,436
Additions	29,320	11,529	1	-	-	18,849	59,699
Amortisation charge	(31,967)	(28,093)	(289)	-	-	-	(60,349)
Disposals	-	(1)	-	-	-	-	(1)
Transfers	8,977	292	1	-	-	(9,270)	-
At 31 December 2018							
Cost	538,204	224,929	4,847	73,313	-	34,363	875,656
Accumulated amortisation	(482,444)	(134,898)	(2,528)	-	-	(1)	(619,871)
Net book value	55,760	90,031	2,319	73,313	-	34,362	255,785

Goodwill and customer relationships were recognised at the merger of Slovak Telekom with T-Mobile on 1 July 2010. Goodwill and customer relationships arose on the Slovak Telekom's acquisition of the controlling interest in T-Mobile at 31 December 2004.

thousands of EUR	Software	Licences	Internally developed intangible assets	Goodwill	Customer relationships	Intangibles under construction	Total
At 1 January 2017							
Cost	466,813	227,551	4,714	73,313	249,532	28,805	1,050,728
Accumulated amortisation	(430,726)	(108,862)	(1,989)	-	(230,337)	-	(771,914)
Net book value	36,087	118,689	2,725	73,313	19,195	28,805	278,814
Additions	32,696	10,704	153	-	-	10,499	54,052
Amortisation charge	(33,561)	(23,391)	(284)	-	(19,195)	-	(76,431)
Disposals	-	1	-	-	-	-	1
Transfers	14,208	301	12	-	-	(14,521)	-
At 31 December 2017							
Cost	507,468	234,858	4,879	73,313	249,532	24,783	1,094,833
Accumulated amortisation	(458,038)	(128,554)	(2,273)	-	(249,532)	-	(838,397)
Net book value	49,430	106,304	2,606	73,313	-	24,783	256,436

13. IMPAIRMENT OF GOODWILL

thousands of EUR	2018	2017
T-Mobile	73,313	73,313
	73,313	73,313

The goodwill previously recognised at the acquisition of T-Mobile was recognised in the separate statement of the financial position of the Company on the merger on 1 July 2010. The recoverable amount of the cash-generating unit was determined using cash flows projections based on the ten-year financial plans that present the management's best estimate on market participants' assumptions and expectations. The Company uses ten-year cash flow projections as the payback period of the investments in the telecommunications operations often exceeds 5 years. Cash flows beyond the ten-year period are extrapolated using a 1.5% growth rate (2017: 1.5%) and a discount rate of 5.81% (2017: 5.49%). The growth rate does not exceed the long-term average growth rate for the market in which the cash-generating unit operates. Further key assumptions on which management has based its determination of the recoverable amount of cash-generating unit include the development of revenue, customer acquisition and retention costs, churn rates, capital expenditures and market share, which are based on past performance and management's expectations for the future. Input parameters used to determine the recoverable amount are classified in Level 3 in accordance with IFRS 13. The recoverable amount of the cash-generating unit based on fair value less costs of disposal calculation exceeded its carrying value. Management believes that any reasonably possible change in the key assumptions on which the cash-generating unit's recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

14. INVESTMENTS IN SUBSIDIARIES

At 31 December 2018 the Company held the following investments in fully consolidated direct subsidiaries:

Name and registered office	Activity
DIGI SLOVAKIA, s.r.o. („DIGI") Röntgenova 26, 851 01 Bratislava	TV services, broadband services and TV channels production
PosAm, spol. s r.o. ("PosAm") Bajkalská 28, 821 09 Bratislava	IT services, applications and business solutions
Zoznam, s.r.o. ("Zoznam") Viedenská cesta 3-7, 851 01 Bratislava	Internet portal
Zoznam Mobile, s.r.o. ("Zoznam Mobile") Viedenská cesta 3-7, 851 01 Bratislava	Mobile content provider
Telekom Sec, s.r.o. ("Telekom Sec") Bajkalská 28, 817 62 Bratislava	Security services

On 25 January 2018 the subsidiary of the Slovak Telekom PosAm acquired 100% share and voting rights in company Commander Services s.r.o. The change of ownership was registered in the Commercial register of the Slovak Republic on 6 February 2018. Main activity of the new subsidiary is GPS monitoring of motor vehicles.

thousands of EUR	Share and voting rights	Cost of investment 2018	Cost of investment 2017	Profit / (loss) 2018	Profit / (loss) 2017	Net assets 2018	Net assets 2017
DIGI SLOVAKIA, s.r.o.	100%	52,362	52,362	5,447	5,024	26,016	20,569
PosAm, spol. s r.o.	51%	12,968	12,968	1,310	1,631	13,345	12,851
Zoznam, s.r.o.	100%	2,346	2,346	342	263	3,103	2,760
Zoznam Mobile, s.r.o.	100%	1,410	1,410	16	(95)	429	413
Telekom Sec, s.r.o.	100%	72	72	(1)	(2)	57	58
		69,158	69,158				

Financial data for subsidiaries are based on their separate financial statements. At the date of authorisation of these separate financial statements for issue, the approved financial statements of subsidiaries for the year ended 31 December 2018 were not available. The table is prepared based on their non-approved draft financial statements.

All subsidiaries are incorporated in the Slovak Republic. Shares in the subsidiaries are not traded on any public market.

Cost of investment in Zoznam and Zoznam Mobile is net of impairment of EUR 1,562 thousand and EUR 938 thousand respectively.

In 2017 the Company increased issued capital of Telekom Sec by EUR 60 thousand.

15. TRADE AND OTHER RECEIVABLES

thousands of EUR	2018	2017
Non-current		
Receivables from instalment sale	467	189
Finance lease receivables	915	1,445
	1,382	1,634
Current		
Trade receivables	104,096	101,600
Other receivables	453	523
Finance lease receivables	933	807
	105,482	102,930

Trade receivables are net of an allowance of EUR 25,859 thousand (2017: EUR 17,932 thousand). If the allowance percentage increases by 1% in each relevant ageing group (except where there is 100% allowance created), the charge for the period would be by EUR 774 thousand higher (2017: EUR 182 thousand).

Movements in the allowance for impaired receivables from third parties were as follows:

thousands of EUR	2018	2017
At 1 January	17,932	17,564
Opening balance adjustment related to IFRS 9	7,463	-
Charge for the year, net	4,217	4,633
Utilised	(3,753)	(4,265)
At 31 December	25,859	17,932

Opening balance adjustment related to IFRS 9 consists of change in standard receivables allowance (EUR 1,693 thousand) and change in allowance to risk receivables (in 2017 decreasing directly revenues), which percentage of creation has been reassessed under IFRS 9 and since 2018 this allowance is treated as standard bad debt (EUR 5,770 thousand).

16. PREPAID EXPENSES AND OTHER ASSETS

thousands of EUR	2018	2017
Non-current		
Easements	9,277	9,207
Subscriber acquisition costs	-	2,440
Other prepaid expenses	1,786	1,908
	11,063	13,555
Current		
Subscriber acquisition costs	-	1,660
Other prepaid expenses	3,238	3,863
Advance payments	9,923	2,372
Other assets	107	187
	13,268	8,082

17. INVENTORIES

thousands of EUR	2018	2017
Materials	6,602	5,711
Goods	8,030	10,193
	14,632	15,904

Inventories are net of an allowance of EUR 1,174 thousand (2017: EUR 1,912 thousand). The write-down of inventories in the amount of EUR 411 thousand (2017: EUR 576 thousand) was recognised in cost of material and equipment.

18. TERM DEPOSITS

thousands of EUR	2018	2017
Term deposits in banks	3,432	6,336
	3,432	6,336

Term deposits include deposits at banks with original maturity more than 3 months from the date of acquisition. Short-term deposits with original maturity of three months or less from the date of acquisition are presented as cash and cash equivalents. For credit ratings see Note 3.2.

19. LOANS

thousands of EUR	2018	2017
Loans to Deutsche Telekom AG	217,000	183,000
	217,000	183,000

The loans granted to Deutsche Telekom AG were not secured. Loans outstanding at 31 December 2018 were provided in December 2018 and were repayable in January 2019 (2017: provided in December 2017, repayable in January 2018). For credit ratings see Note 3.2.

20. CASH AND CASH EQUIVALENTS

thousands of EUR	2018	2017
Cash and cash equivalents	39,550	49,615
	39,550	49,615

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term investments are made for varying periods between one day and three months, and earn interest at the respective rates. For credit ratings see Note 3.2.

21. SHAREHOLDERS' EQUITY

On 18 June 2015 Deutsche Telekom Europe B.V. became the sole shareholder of Slovak Telekom.

As at 31 December 2018, Slovak Telekom had authorised and issued 86,411,300 ordinary shares (2017: 86,411,300) with a par value of EUR 10.00 per share (2017: EUR 10.00 per share). All the shares issued were fully subscribed. All the shares represent the rights of shareholder to participate in the managing of Slovak Telekom, on the profit and liquidation balance upon the winding-up of Slovak Telekom with liquidation.

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 2013, after the distribution of 2012 statutory profit, the statutory reserve fund reached the level required by the Slovak law and the Articles of Association of Slovak Telekom, a.s.

Category Other in the Statement of changes in equity covers changes of equity from retirement benefits (Note 22) and share-based payment plan.

The Financial statements of the Company for the year ended 31 December 2017 were authorised for issue on behalf of the Board of Directors of Slovak Telekom on 15 March 2018.

On 30 April 2018 Deutsche Telekom Europe B.V. while performing competences of the General meeting of Slovak Telekom approved distribution of the prior year profit in the form of dividends. Total dividends of EUR 66,637 thousand (2017: EUR 61,232 thousand) were paid in May 2018, which amounted to EUR 0.77 per share (2017: EUR 0.71 per share).

Approval of the 2018 profit distribution will take place at the Annual General Meeting scheduled for April 2019.

22. PROVISIONS

thousands of EUR	Legal and regulatory claims	Asset retirement obligation	Termination benefits	Employee benefits	Other	Total
	(Note 28)					
At 1 January 2018	2,000	17,481	1,541	13,510	1,907	36,439
Arising during the year	437	491	5,169	1,016	967	8,080
Utilised	-	(4)	(1,541)	(27)	(661)	(2,233)
Reversals	(283)	(36)	-	(1,284)	(255)	(1,858)
Interest impact	-	(1,861)	-	209	1	(1,651)
At 31 December 2018	2,154	16,071	5,169	13,424	1,959	38,777
Non-current	-	16,071	-	13,424	932	30,427
Current	2,154	-	5,169	-	1,027	8,350
	2,154	16,071	5,169	13,424	1,959	38,777

thousands of EUR	2018	2017
Non-current	30,427	32,047
Current	8,350	4,392
	38,777	36,439

Asset retirement obligation

The Company is subject to obligations for dismantlement, removal and restoration of assets associated with its cell site operating leases (Note 2.19). Cell site lease agreements may contain clauses requiring restoration of the leased site at the end of the lease term, creating an asset retirement obligation.

Termination benefits

The restructuring of the Company's operations resulted in headcount reduction of 129 employees in 2018. The Company expects a further headcount reduction of 251 employees in 2019 as a result of an ongoing restructuring program. A detailed formal plan that specifies the number of staff involved and their locations and functions was defined and authorised by management and announced to the trade unions. The amount of compensation to be paid for terminating employment was calculated by reference to the collective agreement. The termination payments are expected to be paid within twelve months of the statement of financial position date and are recognised in full in the current period. In 2018 the Company recognised an expense resulting from termination benefits in amount of EUR 3,109 thousand (2017: EUR 5,059 thousand) in staff costs.

Retirement and jubilee benefits

The Company provides benefit plans for all its employees. Provisions are created for benefits payable in respect of retirement and jubilee benefits. One-off retirement benefits are dependent on employees fulfilling the required conditions to enter retirement and jubilee benefits are dependent on the number of years of service with the Company. The benefit entitlements are determined from the respective employee's monthly remuneration or as a defined particular amount.

thousands of EUR	Retirement benefits	Jubilee	Total
Present value of the defined benefit obligation			
At 1 January 2018	13,210	300	13,510
Current service cost	1,011	25	1,036
Interest cost	205	4	209
Benefits paid	(9)	(18)	(27)
Remeasurement of defined benefit plans	(22)	2	(20)
Curtailment gain	(1,284)	-	(1,284)
At 31 December 2018	13,111	313	13,424

thousands of EUR	Retirement benefits	Jubilee	Total
Present value of the defined benefit obligation			
At 1 January 2017	12,057	290	12,347
Current service cost	775	24	799
Interest cost	185	5	190
Benefits paid	(9)	(12)	(21)
Remeasurement of defined benefit plans	533	(7)	526
Curtailment gain	(331)	-	(331)
At 31 December 2017	13,210	300	13,510

Remeasurement of defined benefit plans related to retirement benefits in amount of EUR 22 thousand consists of change in demographic assumptions in amount of EUR 37 thousand partially netted by experience adjustments in amount of EUR 15 thousand.

The curtailment gain in amount of EUR 1,284 thousand resuled mainly from a reduction in the number of participants covered by the retirement plan that occurred in 2018 or was announced for 2019. There were no special events causing any new past service cost during 2018 other than the curtailment mentioned above.

Principal actuarial assumptions used in determining the defined benefit obligation and the curtailment effect in 2018 include the discount rate of 1.58% (2017: 1.58%). The expected expense for 2018 has been determined based on the discount rate as at the beginning of the accounting year of 1.58% (2017: 1.56%). Average retirement age is 62 years (2017: 62 years). The expected growth of nominal wages over the long term is 2.0% (2017: 2.0%). The remaining weighted average duration of the defined benefit obligation is 12.2 years (2017: 13.3 years).

The sensitivity analysis for the significant actuarial assumptions as at 31 December 2018 and 2017 is as follows:

thousands of EUR	(Decrease) / increase of employee benefits provision	
	2018	2017
Change of actuarial assumption:		
Discount rate change +100 bp / -100 bp	(1,445) / 1,641	(1,559) / 1,786
Salary change +0.50% / -0.50%	790 / (749)	858 / (810)
Change in life expectation +1 year / -1 year	16 / (18)	16 / (18)

23. TRADE AND OTHER PAYABLES

thousands of EUR	2018	2017
Non-current		
Financial payables for capitalised content licences	2,015	2,132
Finance lease payables	-	62
Other payables	532	536
	2,547	2,730
Current		
Trade payables	47,208	55,556
Uninvoiced deliveries	57,231	45,837
Financial payables for capitalised content licences	8,588	12,597
Finance lease payables	62	249
Other payables	775	13,118
	113,864	127,357

Reconciliation of cash used in investing activities:

thousands of EUR	2018	2017
Additions to property and equipment and intangible assets (Notes 11, 12)	147,713	136,736
Additions to capitalised content licences	(12,529)	(10,504)
Non-cash additions from asset retirement obligation	(579)	(4,224)
Change in payables for purchase of property and equipment and intangible assets	5,163	252
Cash used in investing activities for purchase of property and equipment and intangible assets	139,768	122,260

Reconciliation of cash used in financing activities:

thousands of EUR	2018	2017
Additions to capitalised content licences	12,529	10,504
Change in financial payables for capitalised content licences	4,126	2,972
Foreign exchange adjustments	406	(499)
Cash used in financing activities for purchase of intangible assets	17,061	12,977

24. OTHER LIABILITIES AND DEFERRED INCOME

thousands of EUR	2018	2017
Non-current		
Deferred income	-	4,927
Other liabilities	242	435
	242	5,362
Current		
Deferred income	23	31,874
Amounts due to employees	17,886	19,887
Other tax liabilities	9,381	9,101
Other liabilities	4,804	4,926
	32,094	65,788

Amounts due to employees include social fund liabilities:

thousands of EUR	2018	2017
At 1 January	90	82
Additions	1,470	1,462
Utilisation	(1,321)	(1,454)
At 31 December	239	90

25. COMMITMENTS

The Company's purchase commitments were as follows:

thousands of EUR	2018	2017
Acquisition of property and equipment	47,917	57,885
Acquisition of intangible assets	5,065	5,631
Purchase of services and inventory	100,296	100,694
	153,278	164,210

26. OPERATING LEASE – THE COMPANY AS LESSEE

The future minimum operating lease payments were as follows:

thousands of EUR	2018	2017
Operating lease payments due within one year	17,699	17,639
Operating lease payments due between one and five years	32,388	34,834
Operating lease payments due after five years	6,301	10,446
	56,388	62,919

The possible prolongation of operating lease contracts is not reflected in the table.

During 2013 the Company has entered into an operating lease of premises contract for the period of 10 years. The Company has an option to extend the lease term for the next 2 years and the Company has a right to exercise the option repeatedly, maximum five times. Since 2015 rental payments shall increase annually by the portion contingent on the index of the consumer prices increase in the Eurozone, maximum 3.5% annually.

27. RELATED PARTY TRANSACTIONS

thousands of EUR	Receivables		Payables		Sales and income		Purchases		Commitments	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
DT AG	223,028	187,759	9,611	8,070	5,377	3,986	10,789	8,709	178	168
Subsidiaries	9,558	3,557	7,077	1,703	9,948	9,161	9,983	6,997	214	340
Other entities in DT AG group	6,786	6,075	9,242	8,234	23,776	21,756	24,907	21,641	14,073	14,746
	239,372	197,391	25,930	18,007	39,101	34,903	45,679	37,347	14,465	15,254

The Company conducts business with its subsidiaries (DIGI, PosAm, Zoznam, Zoznam Mobile, Telekom Sec, Commander) as well as with its ultimate parent, Deutsche Telekom AG and its subsidiaries, associates and joint ventures. Business transactions relate mainly to telephone calls and other traffic in the related parties' networks. Other transactions include data services, management, consultancy, other services and purchases of fixed assets. In 2018 the Company purchased fixed assets in amount of EUR 5,922 thousand (2017: EUR 2,928 thousand) from related parties.

In 2018 the Company granted Deutsche Telekom AG a short-term loan of EUR 217,000 thousand (2017: EUR 183,000 thousand).

In March 2018 the General meeting of PosAm declared a dividend of EUR 416 thousand (2017: EUR 563 thousand), which was paid in March 2018 (Note 8). There was no dividend declared by other subsidiaries in 2018 and 2017.

In 2016 the Company signed an ICT contract with a duration of 80 months with T-Systems International GmbH ("TSI"). Within this contract, the Company acts as the main subcontractor for the restructuring of the Allianz communication network in the selected countries. DT AG Group entities in relevant countries are service providers for the Company. The total value of the contract amounts to EUR 41,537 thousand. In 2018 the Company recognised revenue with TSI in amount of EUR 5,432 thousand (2017: EUR 4,829 thousand), revenue with other DT AG Group entities in amount of EUR 68 thousand (2017: EUR 274 thousand) and expenses with other DT AG Group entities in amount of EUR 4,069 thousand (2017: EUR 3,898 thousand).

Deutsche Telekom as the ultimate parent company controlling Slovak Telekom is a related party to the Federal Republic of Germany. Slovak Telekom had no individually significant transactions with the Federal Republic of Germany or entities that it controls, jointly controls or where Federal Republic of Germany can exercise significant influence in either 2018 or 2017.

Compensation of key management personnel

The key management personnel as at 31 December 2018, 15 in number (2017: 15) include members of the Management Board, Board of Directors and Supervisory Board.

Since 1 July 2016 the companies Slovak Telekom and T-Mobile Czech Republic a.s. have the joint Management Board. All management members are responsible for business and managerial activities of companies on both Slovak and Czech markets. The number of key management personnel include all members of the Management Board, irrespective if they are employed by Slovak Telekom or T-Mobile Czech Republic a.s. Tables below include only benefits earned by the key management personnel in Slovak Telekom.

thousands of EUR	2018	2017
Short term employee benefits	1,899	2,316
Defined contribution pension plan benefits	146	52
Share-based payment plan	-	15
	2,045	2,383

thousands of EUR	2018	2017
Management Board	2,032	2,352
Board of Directors	-	15
Supervisory Board	13	16
	2,045	2,383

The benefits of Management Board in 2017 include amount of EUR 8 thousand for private spending of members charged to the Company.

28. CONTINGENCIES

Legal and regulatory cases

On 17 October 2014 the European Commission sent an infringement decision to the Company in case AT 39.523 (hereinafter "the Decision"). The Decision found the Company (and DT AG, as parent company) liable for breach of competition law (margin squeeze and refusal to deal) in relation to ULL for the period 12 August 2005 – 31 December 2010 and imposed a fine of EUR 38,838 thousand on DT AG and the Company, jointly and severally. On 26 December 2014 the Company filed an appeal against the Decision to the General Court of the European Union. The fine was paid by the Company in January 2015. On 13 December 2018 the General Court partially annulled the Decision stating that pricing practices were not proved for the entire time period as stated in the Decision and reduced imposed fine. The Company has right to appeal the General Court's decision to Court of Justice.

Following the European Commission's decision, three competitors of the Company filed action against Slovak Telekom with the civil court in Bratislava in 2015, one of the claimants withdrew its action in 2017. Another damage claim action was filed in 2017. These claims seek compensation for damages allegedly incurred due to Company's abuse of its dominant market position, as determined by the European Commission and amount to EUR 214,915 thousand plus interest. Other competitors that believe they have been harmed by the Company anti-competitive conduct during the infringement period may decide to file actions for damages as well.

In 2009, the Anti-Monopoly Office ("AMO") imposed on Company a penalty of EUR 17,453 thousand for abusing its dominant position by price squeeze and tying practices on several relevant markets (voice, data and network access services on its fixed network). Company filed an action for judicial review of AMO decisions to the Regional Court in Bratislava in 2009. In January 2012, the Regional Court cancelled the AMO decision. The Regional Court's judgment was subsequently cancelled by the Supreme Court in February 2014 upon AMO's appeal and the Regional Court confirmed AMO's decisions in June 2017. The penalty was paid in October 2017. The Company appealed.

In 2013, two competitors filed actions against Company seeking damages allegedly incurred due to Company's conduct as determined by the AMO, third competitor filed similar action in 2015. The claimants contend that they incurred lost profit amounting to EUR 141,690 thousand plus interest. All three proceedings are ongoing at first instance District Court Bratislava II.

The Company is otherwise involved in legal and regulatory proceedings in the normal course of business.

As at 31 December 2018, the Company recognised provision for known and quantifiable risks related to proceedings against the Company, which represent the Company's best estimate of the amounts, which are more likely than not to be paid. The actual amounts of penalties, if any, are dependent on a number of future events the outcome of which is uncertain, and, as a consequence, the amount of provision may change at a future date.

29. AUDIT FEES

The Company obtained following services from the audit company PricewaterhouseCoopers Slovensko, s.r.o.:

thousands of EUR	2018	2017
Audit services	332	281
Oher assurance services	4	-
Other non-audit services	221	548
	557	829

30. ASSETS AND LIABILITIES RELATED TO CONTRACTS WITH CUSTOMERS

Contract asset is recognised mainly in case of multiple element arrangements (e.g. mobile contract plus handset), when a larger portion of the total consideration is attributable to the component delivered in advance (mobile handset), requiring earlier recognition of revenue.

Contract costs are assessed as incremental cost of obtaining a contract and consists of Dealer commission.

Contract liability is related mainly to one-time fees and advanced payments for post-paid services.

The Company has recognised the following assets and liabilities related to contracts with customers:

thousands of EUR	Closing balance 2018	Opening balance 2018
Non-current assets		
Contract assets	24,591	21,190
Loss allowance	(864)	(333)
	23,727	20,857
Contract costs	5,213	5,665
	5,213	5,665
Current assets		
Contract assets	50,790	49,522
Loss allowance	(3,088)	(2,375)
	47,702	47,147
Contract costs	15,159	16,166
	15,159	16,166
Non-current liabilities		
Contract liabilities	4,531	4,662
	4,531	4,662
Current liabilities		
Contract liabilities	50,317	48,838
	50,317	48,838

Revenue recognised in the reporting year that was included in the contract liability balance at the beginning of the year amounted to EUR 45,982 thousand.

Transaction price allocated to the performance obligations that are unsatisfied as of the end of reporting year amounted to EUR 351,137 thousand. Management expects that the transaction price allocated to the unsatisfied contracts as of 31 December 2018 will be recognised as revenue as follows: EUR 263,153 thousand during first year; EUR 84,724 thousand during second year and EUR 3,260 thousand during third-tenth year.

Wages and salaries include also amortisation of costs to obtain a contract with customer in the amount of EUR 3,581 thousand (Note 5).

Dealer commission includes also amortisation of costs to obtain a contract with customer in the amount of EUR 2,694 thousand (Note 7).

31. EVENTS AFTER THE REPORTING YEAR

There were no events, which have occurred subsequent to the year-end, which would have a material impact on the financial statements at 31 December 2018.

COMPANY ADDRESS:

Slovak Telekom, a. s., Bajkalská 28,
817 62 Bratislava, Slovak Republic

Info line:
0800 123 456

Web: www.telekom.sk