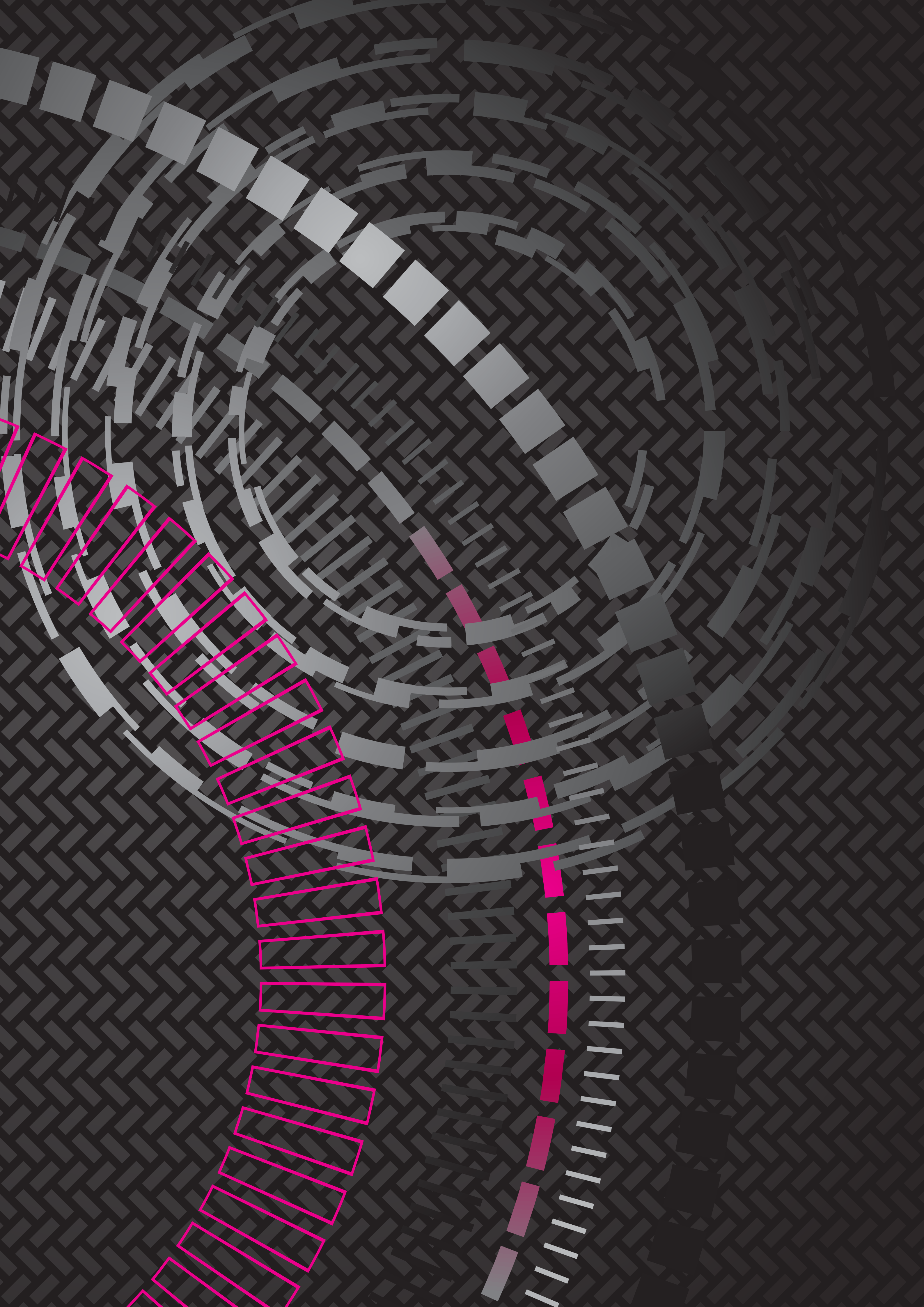
Slovak Telekom – Annual Report 2011

Life is for sharing.

Content



Introduction of Slovak Telekom Group

Foreword of the Chairman of the Board

Miroslav Majoroš
Chairman of the Board of Directors and CEO

Dear shareholders, customers and readers,

After a momentous year of integration, our Company entered a new phase in orientation 2011. As the largest telecommunications operator, we have an entire calendar year behind us, during which we managed to reach our ambitious goals and achieve a high level of profitability. Slovak Telekom is still looking to further changes, arising primarily from macroeconomic factors but also by our ambition to become an even more flexible operator in a dynamically evolving market.

Looking at 2011 from a financial standpoint, it is reasonable to call it successful, although some parameters did not score rising development. External factors pushed down earnings – further waves of regulations on a European or local level represent a significant challenge, and the Slovak Telekom Group saw slightly reduced earnings for the third year in a row; this year, the nominal reduction was the lowest. Despite this, we have achieved some excellent results: we invested greatly into the market, as attested by a significantly larger 3G coverage and the opening of the new, largest-ever data centre. We are simultaneously working to maintain profitability in spite of lower revenues, as demonstrated by the EBITDA (earnings before tax, interest, depreciation and amortization) of EUR 389 million.

Our endeavour to make activities more efficient has taken the form of the Alexander Transformation Program, instituted for the years 2011 to 2014. Its first year has already shown good results: reduced expenses, numerous activities consolidated, and successful integration of the last major portion of the Company: networks. As part of Alexander, we are planning effective portfolio revision in coming years, and other steps to be applied gradually across the Company.

The last twelve months have proven the full saturation of the telecommunications business, and several segments will show no further growth. Slovak Telecom, however, identified areas worth investing in. Data networks, the ICT segment and content services have the potential for growth, and our Company has undertaken new activities in each of these.

For several years we have been discussing the effort to offset the drop in fixed voice service revenues with other areas. This year again we achieved an excellent outcome – a drop of less than one percent. Many activities were accomplished: the number of broadband accesses and of fixed internet customers is increasing; digital television has had another productive year (with a growth in base of 30%); the data centre opened successfully in June 2011, and within a few months its first clients started using its services. The ICT segment, too, persevered through one of its most difficult years, and few companies can boast of a revenue increase of 14 percent, as can our subsidiary PosAm. The combination of ICT activities in-house and of PosAm is a promising sign for the Group's growth in a segment that has clear potential. The subsidiaries Zoznam and Zoznam Mobile likewise experienced double-digit growth (by 12 percent), which confirms its orientation as a strong player in internet content.

As for fixed-line business, we have to mention new investment in the optic network, now available in 27 towns across Slovakia. The number of broadband accesses to our networks is increasing year on year; we are nearing the milestone of a half million accesses, which we will probably reach in the upcoming 12 to 18 months.

In addition to the various technologies, however, we appreciate the need for high-quality content. In digital television, our successful and solidly established (over five years) Magio platform is still scoring. It is available all over Slovakia thanks to its functioning on both metallic and fibre networks, as well as via satellite. Magio, with its wide spectrum of functions, is meant to speak to customers in a different way now. During the year we brought a number of new channels to the screen, and in the fall the interesting services Magio archív (Magio archive) and Spustenie od začiatku (Playing the broadcast program from the beginning). In the Christmas campaign, for the first time we both put in place price benefits and tried selling services based on their functions and applications; this brought substantial sales results. At the same time we exploited the digitalization phase under way, which was proven sound in the next six months' solid growth in customer base.

We had another challenging year in the mobile segment. Competition is growing more intense; it is not just operators with established networks trying to interest customers, but also new players selling services under different brands. Our Company got people interested in a different way, or rather focused on a targeted segment. Collaboration with the Disney brand led to introducing SIM cards with special Cars and Hannah Montana content collections, stylish packaging and parent control tools. As with Magio, we are working to win customers in a different way: through added values, exclusive content, or applications for parents.

The question of segmentation, with sales, remains the highest priority. Customer preferences differ, and that is why we have adapted a flexible offering in the Podľa seba (My Choice) programs. We are also adding targeted services to the portfolio, like the Študentský paušál (Student Plan), combining such preferred services as calling, mobile internet and a promotional smartphone.

Over the past year, smartphones have seen a pronounced growth in sales. Though they often accounted for 35 to 50 percent of sales, in the last two months they clearly dominated sales – during the Christmas campaign three of four telephones sold were smartphones, with which we sell a new Internet in mobile data program portfolio. There has been a fundamental change in mobile telephone use over the last two to three years. In new items, customers want not only top rate hardware, but above all the use of mobile applications and connectivity via a reliable network.

This is one reason we invested heavily in 3G technology in 2011. We expanded coverage from 42 to 65 percent of Slovakia's population, and scored several firsts in mobile internet. In March we were the first operator to introduce HSPA+ 21 Mbps technology; in summer we executed a 3G test unique in the world; and in October we commercially launched HSPA+ 42 Mbps with 5.8 Mbps uplink.

Last but not least, in October we launched the new Telekom brand. This was a great step for the Company. It culminated our integration process, and from here onwards customers will associate our Company with a single brand, and have available a single customer line, a single web portal and e-shop, and a common sales network.

Further consolidation, and building on the past year's many accomplishments, awaits the Company in 2012. We hope to strengthen our position in the ICT segment, remain a strong player in mobile internet, and have the widest offering of promotional telephones, particularly smartphones. We will be investing in the market and in technology, and improving our thriving platforms. Under the Telekom brand, we will develop into the Slovak customer's favourite operator. Though these are big ambitions, I sincerely hope to achieve them in 2012, and enjoy, together with our clients, further success in the Slovak market.

Miroslav Majoroš
Chairman of the Board of Directors and CEO

2011 Milestones

(Company Business and Financial Report.)

January

Internet news service on TV screens: Customers with Magio digital television no longer have to switch on their computers or look for their mobile phones to read the latest news. With a Magio remote control they have easy access to articles from Topky.sk and Športky.sk.

New maps: The Zoznam.sk internet portal has innovated its original map solution and come up with a completely new design and functionality. A significant change occurred with respect to the domain itself; the original Kompas.sk was changed to mapa.sk, which is more intuitive and easier to remember

February

12 new TV channels added to Magio Sat: TV channels of various genres have been added to the Magio Sat service, most of them in the new Magio Sat Komplet package. New items in the offering include Discovery Science, Discovery World, Universal Channel, the children's channel Nickelodeon and the sports channel Eurosport 2.

Zoznam assists startups: Zoznam.sk decided to assist promotion of Slovak start up internet companies and projects. It offers marketing, media and expert help in developing and spreading awareness of new projects.

March

Disney collection pre-paid cards – Slovak Telekom launched new prepaid cards in two versions, Hannah Montana and Cars, thereby strengthening its segmentation of products and services for children. The new item also offers special packaging with stickers and other branded items.

The first network with HSPA+ 21 Mbps: Slovak Telekom is the first company in Slovakia to start further enhancement of the 3G network, and has gradually extended it from the launch (in three cities: Bratislava, Piešťany, Komárno) to other locations.

Digital signature for Tatrabanka: it is the first bank in Slovakia to introduce digital signatures to authenticate their clients' signatures. PosAm participated in the successful launch of this useful solution.

April

Training of sales representatives in sign language: 60 employees in Telekom Centres learned the basics of the sign language. They joined the ranks of the 160 sales people already trained.

May

EU-roaming: A new roaming package offers cheaper calls in the European Union countries. It was first launched for business customers, and later for other segments as well.

Topky.sk redesign: Zoznam.sk brought out a refreshed version of its news magazine Topky.sk. The redesign did not feature revolutionary changes, but it does respond to readers' current preferences and expectations.

New look of Zoznam.sk title page: The new title page of Zoznam.sk offers a more light and modern design, emphasizing the most attractive content and most used page functions.

Finance Manager of the Year: TREND weekly declared the winner of the third annual Finance Manager of the Year survey. The winner was Miroslav Bielčik from PosAm.

June

Slovak Telekom opens state-of-the-art data centre in Slovakia: Telekom Data Centre is a unique 5-storey building designed from the very beginning with emphasis on the highest technological, security and environmental standards. The Bratislava Data Centre project underlines Slovak Telekom's long-term strategy of offering a wide portfolio of ICT services with added value.

Number of Magio television customers exceeds 150 thousand: The lucky one can enjoy Magio TV on a top LCD television set; all Magio customers benefited from the fact the milestone was reached: as a present for them, all television channels were accessible free of charge throughout July.

Largest offering of discounted telephones: The summer campaign brought a new goal: to have the broadest offering of discounted telephones in the market and the highest number of discounted telephones at the price of EUR 1.

World class Sun and Fun at Magio Beach 2011: For the fifth time, the right bank of the Danube at Tyršovo nábrežie riverside in Bratislava turned into an oasis of peace, active relaxation and entertainment. The Magio Beach, which has become an integral part of the summer in the capital, opened right on Children's Day.

Relax and responsibility on Magio Beach: Through activities accompanying Corporate Responsibility Week, visitors had a look into the world of the disadvantaged, received useful advice concerning internet security, had some healthy exercise, or learned the secrets of sign language.

Slovak Telekom starts IPv6 protocol testing with the aim of ensuring a smooth and trouble-free changeover for its customers. Thus Slovak Telekom's internet platform is already interconnected with several Slovak and international internet providers via IPv6 as well.

July

Unique World-Wide Test in 3G Network: In cooperation with the parent company, Ericsson and Qualcomm, Slovak Telekom performed the first testing of HSPA+ 42 Mbps technology in single carrier mode.

3G for 50% of the population: HSDPA and HSUPA data technologies are now available for half of the population of Slovakia.

Cheaper data roaming in Travel & Surf: Slovak Telekom joined a joint initiative of Deutsche Telekom, and brought out three data packages for surfing in the EU and in other countries too.

More modern look for Dromedar.sk: Zoznam.sk continued in redesigning its projects. Having finished the Topky.sk news portal and the Zoznam title page, it came up with innovations on the Dromedar.sk travel portal.

August

Child safety on the internet: A new free Parent Control service for Magio Internet or Mobile Internet customers enables parents to block inappropriate pages on the internet at various levels depending on their children's age. The service can be set up from home, without installing an application.

New features for Optik Internet: Higher speed and FUP cancellation.

Kariéra.sk undergoes redesign: After three years, Kariéra.sk has acquired a stable 2nd position in the market, indicating its popularity with both users and companies advertising vacancies. In the last year the portal grew by 70% with a visitor rate exceeding 200 thousand real users per month.

September

Študentský paušál (Student Plan): A new type of calling plan offers data in the basic package and flexible use of call minutes and SMS. The most interesting smartphone models for the target group were selected.

Internet in mobile phones: New portfolio of plans for surfing via mobile phones covers the needs of both less and more demanding customers.

You can access Facebook via Magio television: With a new application, Magio TV customers can read and write comments using their TV remote control. The application enables users to create several profiles; if there are several Facebook users in one household, each of them can have their own account.

Pieseň pre Nepočujúcich (Song for the Deaf): The Company became a sponsor of the song "Zvukoprázdno" (Soundlessness) by the band Desmod, to support the hearing-impaired and inform the public about its world. A video was produced for the song featuring a deaf actor.

New TV Programme at Zoznam: "Telkáč" is a personalized online TV programme with simple settings and control and remote Magio Box recording.

Dievča leta (Girl of the Summer) SMS contest: For the Dievča leta project, Zoznam Mobile also arranged technical aspects of payments in the drawing for 2 cars.

Nominations for IT Company and IT Project of the Year: PosAm was shortlisted for 2011 IT Company of the Year. A b-Sign project was shortlisted for 2011 IT PROJECT of the Year 2011.The project objective is to enable use of signature server technology and tablets for common branch transactions and computerized use of signatures obtained from signature tablets. The project was entered by Tatra banka and PosAm.

Oktober

HSPA+ 42 Mbps: Slovak Telekom became the first operator in Slovakia to launch commercial operation of HSPA+ technology with even higher rates (42 Mbps) and four times higher data upload (5.8 Mbps) in five cities.

Safe SIM Card produced for children and parents: Pre-paid Disney collection SIM cards have five new services for parents to have better overview of their children's calls and safety.

Magio Archive and Playing the program from the beginning: This long-awaited service offered the possibility to play a program already running from the start, by rewinding, and watching programmes already broadcast. The function automatically records selected television channels; programmes shown up to 7 days back can be played.

November

13 episodes of the OVCE.sk animated series have been made, to warn about the dangers of internet and mobile communication. New episodes are devoted to friendships on the Facebook social network, the desire to have the top mobile phones, behaving like action heroes and the dangers of explosives. The language options are also a novelty. Besides Slovak, episodes can be watched in German, Slovenian, Polish and Estonian.

Zoznam extends product portfolio: Two new items are to support further growth. The magazine startup PlnÍElánu.sk filled the gap in the Slovak Internet for the quickly-growing segment of users above 40. Dopytovač.sk, a new platform established on the basis of Zoznam Katalóg, facilitates communication between clients and suppliers from small and medium enterprises.

December

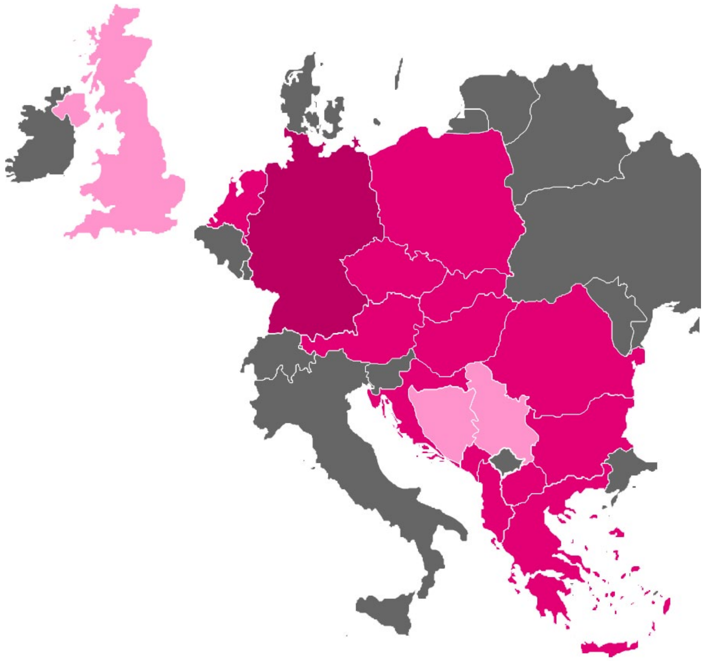
Students should read more and think more critically in schools: Thirteen projects supported, with the total amount of EUR 40,000 from the Telekom Endowment Fund with the Intenda Foundation, are to help attract children to reading and support their creativity and critical thinking.

Zoznam continues redesigning: The internet portal Zoznam.sk continued modernization of its product portfolio. A more pleasant user environment and new functionalities are available at the music fans portal Hudba.sk, and at the country's most comprehensive municipal public transport portal imhd.sk.

(Information on the financial status of the company is included in Section IV with separate and consolidated financial statements of the company.)

Slovak Telekom Group Profile

The Slovak Telekom Group is part of the worldwide Deutsche Telekom group of companies. The magenta T is an unmistakable graphic symbol of all group companies and it also stands for the globally applied values honoured by their employees.



Source: Slovak Telekom

Values identical for all companies forming the Deutsche Telekom Group:

- **Customer delight drives our action;**
- **Respect and integrity guide our behaviour;**
- **Team together – Team apart;**
- **Best place to perform and grow;**
- **I am T – Count on me.**

Companies within the Group

The Slovak Telekom Group comprises the parent company Slovak Telekom, a.s. (Slovak Telekom) and its subsidiaries Zoznam, s.r.o. (Zoznam), Zoznam Mobile, s.r.o. (Zoznam Mobile), Telekom Sec, s.r.o. (Telekom Sec), and PosAm, spol. s.r.o. (PosAm). The Institute of Next Generation Networks in liquidation (Institute of NGN), an interest association of legal entities, is also part of the Slovak Telekom Group.

The Slovak Telekom Group as the provider of comprehensive telecommunications services offers its customers fixed network services, internet connection, digital television services, data services, sale of terminal equipment and call centre services, mobile communication services, internet content (Zoznam and Zoznam Mobile), as well as security services (Telekom Sec). The focus of the Institute of NGN was to support development of NGN technology in Slovakia. It was dissolved by a decision of the ordinary General Meeting as of 28 February 2010 and put in liquidation. It was deleted from the registry of special interest associations of legal entities as of 18 July 2011

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

Slovak Telekom, a.s.

Slovak Telekom is the largest telecommunications operator with many years' experience and international expertise, bringing innovative technology trends to Slovak telecommunications market. The Company owns and operates a telecommunications network which covers the entire territory of the Slovak Republic.

It provides national and international voice services and a wide portfolio of modern data services under its Telekom brand (or T-Com and T-Mobile before). The Company is also the largest provider of the Magio broadband fixed internet in Slovakia. It is Slovakia's first operator to offer interactive digital television via both fixed (metallic and optic) network and via DVB-S2, the satellite technology. The Company operates one of the largest next generation networks (NGN) enabling the use of voice and data services on one common IP platform. In order to be able to provide Slovakia's citizens with new and more convenient services, the Company has made huge investments in extension of its optical infrastructure.

Slovak Telekom is the only operator in the Slovakia to provide its customers with mobile access to the internet via four high-speed data transmission technologies – GPRS/EDGE, Wireless LAN (Wi-Fi), UMTS FDD/HSDPA and FLASH-OFDM, and it is also the operator with the highest number of roaming partners. Customers can use roaming services in the networks of 436 mobile operators in 206 destinations, and GPRS and MMS roaming with 247 GSM operators in 126 destinations worldwide.

Slovak Telekom is certified for quality management under EN ISO 9001: 2008, for the information security management system under ISO/IEC 27001: 2005 and the environmental management system under EN ISO 14001: 2004.2004. The Company is part of the multinational Deutsche Telekom Group (Frankfurt, Amtlicher Handel: DTE/NYSE: DT).

Registered Office:
Karadžičova 10, 825 13 Bratislava
Legal form:
Joint-stock company
Incorporated in the Companies Register:
District court of Bratislava I, Section: Sa, Insert No: 2081/B
Date of Incorporation:
1 April 1999
Identification and Tax Information:
Company ID No (IČO): 35 763 469, Tax Payer ID (DIČ): 2020273893, VAT ID No (IČ DPH): SK 2020273893;
Banking Information:
Tatra banka, a.s., Bank Account Number: 2628740740/1100,
IBAN:SK28 1100 0000 0026 2874 0740

Principal Business Activities of the Company:

- provision of telecommunications services against payment (transmission, processing, creation and mediation of information) for individuals and legal entities, namely voice, graphical, picture, data, information and multimedia telecommunications services and all combinations thereof;
- setting up, operation, construction, maintenance, and servicing of the telecommunications equipment, networks and information technologies owned by other entities, under concluded contracts;
- preparation and updating of information databases for information systems in the telecommunications sector;
- publishing, distribution and sale of directories of subscribers of individual telecommunications services on various media;
- connection of a specific part of the public telecommunications network to the international telecommunications network, concluding of international agreements in the telecommunications sector related to the business activities of Slovak Telekom, and proposing prices and tariffs for domestic and international services, including including billing and clearing thereof.

Shareholder Structure

- Deutsche Telekom AG owns 51% of shares;
- the Slovak Republic, represented by the Ministry of Economy SR owns 34% of shares;
- National Property Fund of the Slovak Republic holds 15 % of shares.

Zoznam, s.r.o.

One of the most frequently visited Slovak internet portals, Zoznam.sk – www.zoznam.sk, operated by the Zoznam company, was established in 1997. It specializes in Slovak internet website search and it also offers the internet users everything that the Slovak internet can offer, all that in a well-arranged format. Therefore Zoznam.sk today offers over 40 on-line products. The most important products of the Zoznam.sk portal include a news server Topky.sk, specialised magazines (Mojdom.sk, Dromedar.sk, oPeniazoch.sk, Autoviny.sk, Feminity.sk, oZene.sk, Rexik.sk, Baby-web.sk, Urobsisam.sk), and the freemail service mail.zoznam.sk, gaming portal Pauzicka.sk, community portal for sharing multimedia content Free.sk, and job portal Kariera.sk. A catalogue of companies 'Katalóg firiem' is an important part of the Zoznam.sk service portfolio, enabling small businesses to present themselves and their contact information professionally on the internet. In 2011, Zoznam brought its users an add-on platform called Dopytovač based on the Zoznam Katalóg, which facilitates communication between clients and SME supplier. The trend towards unified visuals for content magazines has continued. Redesigns in 2011 included products such as Dromedar.sk, Feminity.sk, Kariera.sk, Topky.sk and the title page of Zoznam.sk. New projects that conveniently supplemented the Zoznam product portfolio and introduced new content and advertisement opportunities included the discount BOOMER.sk portal offering discounts of over 50%; the PC.sk technology magazine on innovations in hardware, technology, software and happenings in the IT world; a new personalised and easy-to-configure online TV programme called Telkáč.sk, with well arranged controls and enabled remote recording to the Magio Box; and the PlníElánu.sk magazine for the Slovak Internet niche of a fast growing segment of people over 40.

An independent audit by Mediaresearch company in October 2011 showed the visit rate of Zoznam.sk portal and its products (except Topky.sk) totalling 1,754,025 real users. Compared to the previous year, the number of real users regularly visiting Zoznam internet pages increased by 111,242, which is approximately a 6.3% year-on-year increase in the visit rate.

The visit rate of Topky.sk during the same period was approximately 1,209,200 real users, a 22% rise compared to the previous year

Registered Office:
Viedenská cesta 3-7, 851 01 Bratislava
Legal Form:
Limited liability company
Incorporated in the Companies Register:
District Court of Bratislava I, Section: Sro, Insert No. 24598/B
Date of Incorporation:
1 January 1998
Identification and Tax Information:
Company ID No (IČO): 36 029 076, Tax Payer ID (DIČ): 2020091997, VAT ID No (IČ DPH): SK2020091997
Banking Information:
Tatra banka, a.s., Bratislava branch, Bank Account Number 2624131673/1100

Principal Business Activities of the Company:
- provision of information and advertising services by means of computer technology;
- advertising and promotional activities;
- consulting activity within the relevant scope of business.

Ownership Structure:
- Slovak Telekom, a.s. is the sole owner of the company.

Zoznam Mobile, s.r.o.

The company was founded in 2002 when it started to operate mobile internet content services such as the sending of logs, MMS and ringing tones. It ranks among the top companies providing mobile technologies and solutions. The company offers high-quality, secure and proven solutions, tailor-made according to the projects requiring easily extendible functions upon the client's needs.

Registered Office:
Viedenská cesta 3-7, 851 01 Bratislava
Legal Form:
Limited liability company
Incorporated in the Companies Register:
District Court of Bratislava I, Section: Sro, Insert No. 27440/B
Date of Incorporation:
30 September 2002
Identification and Tax Information:
Company ID No (IČO): 35 844 621, Tax Payer ID (DIČ): 2020288732, VAT ID No (IČ DPH): SK2020288732

Banking Information:
Tatra banka, a.s., Bank Account Number 2620748430/1100

Principal Business Activities of the Company:
- advisory and consultancy services in the field of commerce, advertising, software, automation, electrical engineering and informatics;
- advertising, publicity and promotional activities;
- market research and public opinion polling;
- graphic design production;
- automated data processing.

Ownership Structure:
- Slovak Telekom, a.s. is the sole owner of the company.

PosAm, s.r.o.

Slovak Telekom owns 51% of PosAm, spol. s r.o. PosAm has been operating on the Slovak and Czech IT market since 1990. The company is certified by ISO 9001:2000, ISO/IEC 20000-1: 2005, ISO/IEC 27001: 2005, OHSAS 18001: 2007 and ISO 14001: 2004. PosAm is the holder of the Slovak National Quality Award (Národná cena SR za kvalitu) and as the first Slovakia-based enterprise it was granted the award "Recognized for Excellence in Europe" from the European Quality Management Foundation (EFQM). PosAm has been a fully-fledged EFQM member since 2007.

PosAM focuses on providing IT services, application solutions and infrastructure solutions to corporate customers. National and international awards quality awards together with unique implementations of its solutions and services underline its strong market position in the area of information technology in Central Europe. Long term relationships with partners like Citrix, Hewlett-Packard, IBM, Microsoft and Oracle, investments into employee training, and innovative and visionary potential of the company's management ensure continuous improvement and top performance. PosAm's main objective is to deliver useful solutions to customers and partners which are unique and based on information technologies.

Registered Office:
Odborárska 21, 831 02 Bratislava
Legal Form:
Limited liability company
Incorporated in the Companies Register:
District Court of Bratislava I, Section: Sro, Insert No. 6342/B
Identification and Tax Information:
Company ID No (IČO): 31 365 078, Tax Payer ID (DIČ): 2020315440, VAT ID No (IČ DPH): SK2020315440
Date of Incorporation:
3 January 1994

Principal Business Activities of the Company:

- provision of application solutions, services and infrastructure solutions for corporate customers

Telekom Sec, s.r.o.

The company was established by a Memorandum of Association dated 22 September 2006 in the wording of Amendment No. 1 dated 23 October 2006.

Registered Office:
Kukučínova 52, 831 03 Bratislava
Legal Form:
Limited liability company
Incorporated in the Companies Register:
District Court of Bratislava I, Section: Sro, Insert No. 42889/B
Date of Incorporation:
25 October 2006
Identification and Tax Information:
Company ID No (IČO): 36 691 143, Tax Payer ID (DIČ): 2022269865, VAT ID No (IČ DPH): SK2022269865
Banking Information:
VÚB; Bank Account Number: 2233303757/0200

Principal Business Activities of the Company:

- automated data processing;
- mediation of services in the area of information technologies within the scope of general authorisation (open business licence);
- information technology service – licensed software installation and configuration;
- technical and organisational arrangement of seminars, courses, conferences, and training courses, within the scope of general authorisation (open business licence);
- software provision – sale of ready-made programmes, based on licensing;
- software systems maintenance;
- design and optimisation related to information technologies;
- installation of structured cabling and computer networks.

Ownership Structure:

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

Institute of NGN in liquidation

The Institute of Next Generation Networks, an association of legal entities, was founded by Slovak Telekom and Žilinská univerzita (University of Žilina) on 23 October 2006. It was dissolved by a decision of the ordinary General Meeting as of 28 February 2010 and was put in liquidation. The Association ceased to exist by virtue of deletion from the register of special interest associations of legal entities as of 18 July 2011.

Association's Registered Offices:
Poštová 1, 010 08 Žilina, Slovak Republic
Legal Form:
Special Interest Association of Legal Entities.
Date of Incorporation with the Associations Registry:
23 October 2006
Identification and Tax Information:
Company ID No (IČO): 37 983 229, Tax Payer ID (DIČ): 2022268787, VAT ID No (IČ DPH): SK2022268787
Banking Information:
VÚB; Bank Account Number: 2231898857/0200

Principal Business Activities of the Company:
- the transfer of information, experience, know-how, knowledge and best practices by and between business environment and academic communities in the area of modern networks and information-communication technologies (ICT);
- development of cooperation between industry and universities with the objective of the economic and social development of Slovakia and an increase of Slovakia's competitiveness;
- ICT development in individual regions of Slovakia and among small and medium-sized businesses;
- theoretical and practical education for students, university graduates and teachers for applying ideas and principles of an information society and knowledge-based economy, and implementation of ICT and modern methods in teaching processes;
- research and development activity in cooperation with the University of Žilina and other research & development institutions;
- application of results, research, development and innovation in practice, and creation of conditions for testing of ICT products, services and applications.

Members of the Association:
- Slovak Telekom and Žilinská univerzita (University of Žilina).

Membership and Cooperation with Slovak Associations by Profession and Industry; Involvement in International Organisations

Slovak Telekom is an active member of the following Slovak organisations:

- Slovenská obchodná a priemyselná komora – SOPK (Slovak Chamber of Commerce and Industry)
- Americká obchodná komora v Slovenskej republike (American Chamber of Commerce in the Slovak Republic)
- Slovensko-nemecká obchodná a priemyselná komora (Slovak-German Chamber of Commerce and Industry)
- Republiková únia zamestnávateľov – RÚZ (National Union of Employers)
- Podnikateľská aliancia Slovenska – PAS (Business Alliance of Slovakia)
- Fórum pre komunikačné technológie – CTF (Communications Technologies Forum)
- IT Asociácia Slovenska – ITAS (IT Association of Slovakia)
- Slovenská asociácia pre káblové telekomunikácie – SAKT (Slovak Association for Cable Communications)
- Slovenská asociácia pre elektronický obchod – SAEC (Slovak Association of Electronic Commerce)
- Fórum kreatívneho priemyslu – CIF (Creative Industry Forum)
- Inštitút pre elektronickú zdravotnú dokumentáciu – Prorec (Institute for Electronic Healthcare Records)
- Partnerstvá pre prosperitu – PPP (Partnerships for Prosperity)
- Rada pre reklamu – RPR (Slovak Advertising Standards Council – SASC)
- Klub firemných darcov (Corporate Donors Club)
- Business Leaders Forum – BLF
- HN klub (HN Club)
- Slovenská asociácia finančníkov (Slovak Association of Finance and Treasury)
- Združenie pre riadenie a rozvoj ľudských zdrojov (Slovak Association for Human Resources Management and Development)
- HR Open Forum
- Slovenská asociácia BOZP a OPP (Slovak Association for Health Protection and Safety at Work and Fire Protection)
- Spoločnosť pre projektové riadenie (Project Management Association of Slovakia)
- Asociácia pre prenositeľnosť čísla (Number Portability Association)
- Slovenská asociácia pre vedomostnú spoločnosť – SAKS (Slovak Association for Knowledge Society)

Zoznam is an active member of Asociácia internetových médií (AIM), a Slovak Internet Media Association.

Slovak Telekom is represented in the following international organisations:
Slovak Telekom is represented in the International Telecommunications Union (ITU), where it is a member of the standardisation sector. The Company is also a member of the following organisations:

- ETNO (European Telecommunications Network Operators Association)
- ETIS (E- and Telecommunications Information Services)
- ETSI (European Telecommunications Standards Institute)
- GSM MOU Association
- FreeMove Alliance
- RIPE NCC

Corporate Governance

Organisational Structure of the Company

As a shareholder in its subsidiaries, Slovak Telekom exercises its rights by participating at general meetings, and, if appropriate, exercises the competence of the general meetings in companies where it is the sole shareholder. It appoints its representatives to the statutory bodies of companies, which then submit reports to Slovak Telekom.

Slovak Telekom practices a responsible and transparent model of governance and regularly publishes on its website current and relevant reports on its activities. It also issues information on a quarterly basis on its economic results, publishes its annual report and a corporate social responsibility report every year.

Slovak Telekom, a.s. has long paid particular attention to the internal control environment. The main focus of Company's management in this regard is on the control over internal processes and standards. The results of internal testing of the control environment are the subject of a control performed by the Company's internal and external audit, which will concurrently serve as the basis for the statement by the management of Deutsche Telekom AG on the internal control environment within the Deutsche Telekom Group. This statement was issued for the first time as at 31 December 2006.

Slovak Telekom is a holding company, and the principles of corporate governance have been applied to all its component parts, i.e. to the parent company Slovak Telekom and its subsidiaries, which in 2011 were: Zoznam, Zoznam Mobile, Telekom Sec and PosAm. All subsidiaries acted as separate legal entities.

Slovak Telekom, a. s.

An inherent component of the system of governance is the Company's organisational structure, which determines its basic arrangement, divided into corporate bodies and executive management.

Corporate bodies

The **General Meeting** is the supreme body of the Company. The General Meeting's scope of authority is defined by Act No. 513/1991 Coll. Commercial Code as amended (hereinafter as the "Commercial Code") and the company's Articles of Association.

The **Board of Directors** is the statutory body of the Company, authorised to act on behalf of the Company in all matters and represent it vis-à-vis third parties. The Board of Directors strategically governs the activity of the Company and decides on all Company matters, unless these are reserved by legal regulations or the Articles of Association for the competence of other Company bodies, or unless delegated by the Board of Directors to other bodies. The Board of Directors appoints the Company's Executive Management Board and delegates some powers. It approves the Rules of Procedure for the Executive Management Board.

The **Supervisory Board** is the controlling body of the Company. It oversees the performance of the Board of Directors' competences and the execution of the Company's business operations.

The **Executive Management Board** of Slovak Telekom is responsible for the day-to-day running of the Company in accordance with the decisions of the Board of Directors. The Board of Directors may entrust the Executive Management Board with any activity for which it is responsible, providing the Company's Articles of Association or Slovak legislation do not prohibit this. The Executive Management Board comprises the top-level managers of the Company. Members of the Executive Management Board are responsible to the Board of Directors for their activity.

Zoznam, s.r.o. a Zoznam Mobile, s.r.o.

Corporate bodies

The **General Meeting** is the supreme body of the companies Zoznam, s.r.o and Zoznam Mobile, s. r.o. The powers of the General Meeting are exercised by the sole shareholder, which is Slovak Telekom, a.s.

The **statutory body** of the companies Zoznam, s.r.o. and Zoznam Mobile s.r.o. is a managing director appointed in this office by the sole shareholder, the Company Slovak Telekom, a. The managing director is Martin Mác, who is responsible for the management, operations and results of both companies. He is also the financial director of Zoznam, s.r.o.

PosAm, s.r.o.

Corporate bodies

The **General Meeting** is the supreme body of the company. The General Meeting's scope of authority is defined by the Commercial Code and Memorandum of Association.

The **statutory body** of the company are three managing directors. Their powers are stipulated in the Memorandum of Association.

Telekom Sec, s.r.o.

Corporate bodies

The **General Meeting** is the supreme body of the company. Pursuant to Section 132 (1) of the Commercial Code, the powers of the General Meeting are exercised by Slovak Telekom, as the sole shareholder. The General Meeting's scope of authority is defined by the Commercial Code and Memorandum of Association.

The **statutory body** of the company are two managing directors. The powers of managing directors are stipulated in the Memorandum of Association.

Institute of Next Generation Networks in liquidation

Corporate bodies

The **General Meeting** is the supreme body of the association. It consists of all association members. The General Meeting competence are stipulated in the Articles of Association.

Statutory bodies (managing directors) are entitled to act on behalf of the association. The association has two managing directors; their powers are stipulated in the Articles of Association.

The **Board of Trustees** is the controlling body of the association. It consists of three members.

The **chairman** of the association's powers are stipulated in the Articles of Association.

By a decision of the General Meeting, the association of legal entities Institute of Next Generation Networks was dissolved as of 28 February 2010 and went into liquidation. The Institute ceased to exist by virtue of removal from the register of special interest associations of legal entities as of 18 July 2011.

Code of Conduct

The Code of Conduct is a key company document for the prevention of unethical behaviour. Observing the Code of Conduct is obligatory for all employees of Slovak Telekom Group companies, ensuring that the companies act as trustworthy partners for suppliers and customers.

The Slovak Telekom employees have kept to its tenets in their work since 2006. On 1 July 2011 Slovak Telekom put into effect an updated Code of Conduct, which was subsequently implemented by the subsidiaries PosAm and Zoznam. The current wording of the Code is uniform for all companies within the Deutsche Telekom Group; it brings in joint Guiding Principles and ensures the application of a unified corporate strategy. The new wording defines the organisational culture as well as information processing rules and behaviour standards for business relation.

The underlying principles for decision-making for both managers and employees are morals, ethics, legal standards and corporate values. Increasing company value and correct approach to customer needs and wishes is the priority for employees. Accepting the Code of Conduct is how employees express their loyalty towards the company and through behaviour in line with corporate values they strengthen the social corporate responsibility on the part of themselves and their company.

Supervision of compliance with ethical business conduct and employee behaviour is effected by means of the Ethics line, which is an independent control tool. The line is available to all employees and external partners, to present their comments via telephone, mail or e-mail.

Quality Policy

Slovak Telekom continues ongoing development of an integrated management system, which started back in 2004. The final report by the auditing company TÜV NORD Czech confirmed the validity of certificates for Quality Management EN ISO 9001: 2008 and Information Security ISO/IEC 27001:2005.

The recertification audit of the Environment Management System pursuant to requirements of the EN ISO 14001: 2004 international standard took place in parallel. The new certificate awarded as a result of the audit proves that Slovak Telekom also complies with its obligations in the field of environment protection.

Since Slovak Telekom pays special attention to all aspects of its business, the Executive Management Board decided to implement the Operational Health Safety Management System pursuant to the OHSAS 18001 standard.

The scope of certificates for integrated management systems includes "Development and Provision of Data Services, Desktop Services and LAN Services including Helpdesk, for Business Segment Clients in Business and State and Public Administration".

Striving to offer its customers modern, top quality services, Slovak Telekom is continuously improving its processes. The company has applied the Lean Six Sigma methodology with positive results. Slovak Telekom cooperates with sister companies within the Deutsche Telekom Group and makes use of external training with the highly regarded German company UMS.

Executive Management Board of Slovak Telekom

Ing. Miroslav Majoroš
Chairman of the Board of Directors and Chief Executive Officer

He completed university education at the Faculty of Electronics and Informatics at the Slovak University of Technology in Bratislava and during his professional career supplemented his education through management education programmes at the Harvard Business School and Stanford Graduate School of Business.

After completing his studies in 1983 he worked at the Slovak Television broadcasting company, where he held several positions, in 1993 being appointed to head the company. As of 1994 he worked as Sales Director of IBM Slovakia for industry sectors, over the years 1998-2000 he was the General Manager of IBM Slovakia and from 2000 to 2002 was the General Manager of IBM Czech Republic and Slovakia.

He has been Company President/CEO and a Member of the Board of Directors of Slovak Telekom since 2003. In 2005 he was elected Chairman of the Board of Directors of Slovak Telekom. He was a member of the Board of Directors of the subsidiary T-Mobile Slovensko since 2003, and from the summer of 2009 to 30 June 2010 was the Chairman of the Board. He has held the position of Chairman of the Board of Directors and Chief Executive Officer of Slovak Telekom since 1 July 2010.

Dr. Robert Hauber
Member of the Board of Directors and Chief Financial Officer
(as of 1 April 2011)

He studied at the University of Stuttgart, University of Mainz and at the University of Massachusetts. He holds a Master degree (Dipl. Kfm.) and a doctoral degree (Dr.) - both in business administration. He served Deutsche Telekom for ten years as a senior finance executive in several management positions. Before his career with Deutsche Telekom he worked for Hewlett Packard, Procter & Gamble and DaimlerChrysler, where he was involved in the merger between Daimler-Benz & Chrysler.
Within Deutsche Telekom, Dr. Robert Hauber worked from 2002-2005 as Vice President Financial Controlling of T-Mobile International and from 2005-2009 as Senior Vice President Financial Controlling of T-Mobile International. Between 2009 and 2011 he has been Head of Financial Controlling of the Europe Segment of Deutsche Telekom. In this role, he was Member of the Board of Directors of T-Mobile Czech Republic and Member of the Supervisory Board of T-Mobile Austria and Member of the Supervisory Board of Polska Telefonica Cyfrowa (PTC).
Since April 2011 he is Chief Financial Officer, Vice Chairman of the Executive Management Board and Member of the Board of Directors of Slovak Telekom.

Dušan Švalek
Chief Marketing Officer

His career began with the positions of product and senior brand manager at the companies Benckiser and Johnson&Johnson, respectively. He worked in the Boston Consulting Group for six years. He joined T-Mobile Slovensko in 2004 as Director of the Customer Service Division and since 2007 he was Chief Marketing Officer. From 1 July to 31 December 2010 he held the post of Marketing Director at Slovak Telekom.

As of 1 January 2011, Dušan Švalek is responsible for marketing strategy for individual segments and for product management and the development of voice and data services in line with Deutsche Telekom‘s international strategy.

Igor Matejov
Chief Sales and Customer Service Officer

His career started in the Accenture consulting company, where he worked as a manager for financial institutions and insurance industry. As a Member of the Board of Directors of Consumer Finance Holding, a.s., a VÚB subsidiary, he was responsible for operations, IT and key company projects. In 2007 he joined T-Mobile Slovensko where he managed Customer Service Division as the Executive Director and from February 2009 he worked as the Chief Sales Officer. From 1 July to 31 December 2010 he held the position of Sales Director at Slovak Telekom.

As of 1 January 2011, Igor Matejov manages two areas – he is responsible for all sales channels of the company and for customer care and services. His scope of competence expanded to include the whole ICT segment of Slovak Telekom from 17 October 2011.

Mgr. Petra Berecová
Chief Human Resources Officer

She studied at the Faculty of Philosophy at the Comenius University in Bratislava and subsequently at the Faculty of Law, specializing in the international relationships and law approximation. She worked in the automotive industry as human resources director at Yazaki Slovakia. She started with T-Mobile Slovensko in 2005, as a senior manager for compensation and employee benefits. She managed the T-Mobile's Human Resources Division since 2007, and as a member of top management she participated in the Company's business decisions. As of 1 January 2010 she assumed the position of the Executive Vice-President for Human Resources/CHRO of Slovak Telekom, while continuing her function as Human Resources Director of T-Mobile Slovensko. As of 1 July 2010 Petra Berecová was appointed as Chief Human Resources Officer of the integrated Slovak Telekom company.

Dipl. Ing. Rüdiger J. Schulz
Chief Operating Officer Network and IT (until 16 October 2011)

After his studies of electrical engineering at the University of Hamburg he also focused on telecommunications, and later added business management study at the university in Koblenz. His professional career began with service in the German navy as chief engineer responsible for logistics, technical operations and ship-fitting. R.J. Schulz joined the Deutsche Telekom Group in 1992. In the beginning of his work in Hamburg he was responsible for technology platforms, and later became responsible for Marketing & Sales in the retail and business segment. Since 2005 he worked for T-Systems as Executive Vice-President of Business Customers and Large Enterprises in the north-east region of Germany and developed his experience in the IT area.

He joined Slovak Telekom in Bratislava in November 2006, taking over the position of Senior Executive Vice-President for Marketing, Sales and Technology/COO. He was a member of the Executive Management Board being responsible for marketing and sales, production and services for business and residential customers and wholesale. He worked as Chief Operating Officer Network and IT from 1 July 2010 to 16 October 2011.

RNDr. Milan Hain, CSc.
Acting Chief Operating Officer Network and IT
(as of 17 October 2011 until 31 December 2011)

Having completed his studies at the Comenius University in Bratislava and postgraduate studies at Eindhoven Technology University in the Netherlands, he worked with the Všeobecná úverová banka bank from 1993, holding several positions, including the Director of the IT Development Division He joined EuroTel as its IT director in 1999 and as member of its executive management as of May 2000. In this function, for over a decade he participated in growing, building and continually transforming the Company to the present.

Following the integration he has worked as information and business technology Director since 1 July 2010. From 17 October until 31 December 2011 he was Acting Chief Operating Officer Network and IT.

B.Sc.E.E. Branimir Marič
Chief Operating Officer Technology and IT (as of 1 January 2012)

Branimir Marić began his carer with Hrvatski Telekom in the field of Internet network management and development. Later he was the Head of the Group for customer IP and data networks, and worked as Director of Technical Research and Product Development. He held the position of Executive Director for Group Network Strategy and Platform Development and at the same time he was member of the Croatian T-Com's Executive Board. After the merger of Hrvatski Telekom and T-Mobile Hrvatska in January 2010, Branimir Marić held the post of Operating Director for Service Management and Network Operations Sector for fixed and mobile networks.

Under Branimir Marić's lead, Hrvatski Telekom made significant strides forward in improving the quality of mobile and fixed services, consolidating the mobile and fixed segments, and developing tools and applications for operational support systems, which allow increased operational efficiency and customer satisfaction.

Since 1 January 2012 has held the position of Slovak Telekom's Chief Operating Officer Technology and IT.

Szabolcs Gáborjáni-Szabó, CFA
Member of the Board of Directors and Chief Financial Officer
(until 31 March 2011)

He studied Mathematics and Computer science at the Eötvös Loránd University in Budapest and at the same time Economics at the Faculty of Management at the University of Economic Sciences in Budapest. In 2000 he gained the degree CFA (Chartered Financial Analyst) at the CFA Institute.His professional career began at the Hungarian Commercial and Credit Bank – K&H Bank, in the Special Project Financing Department. In 1995 – 1996 he worked at the Budapest Derivatives Exchange and from 1996 worked in the financial field in the company Magyar Telekom and its subsidiaries, holding, among others, the position of deputy manager of the controlling division (from 1999 to 2001) and manager of the Group Treasury Branch. In 2005 he joined Slovak Telekom as Senior Executive Vice-President for Finance/CFO and a member of the Boards of Directors of Slovak Telekom. He was also a member of the Board of Directors of T-Mobile Slovensko. He was member of Slovak Telekom's Board of Directors and its Chief Finance Officer from 1 July 2010 until 31 March 2011.

Board of Directors of Slovak Telekom

Ing. Miroslav Majoroš - Chairman

Ing. Martin Mác – Vice-Chairman

Dr. Robert Hauber – Member
(since 28 April 2011)

Albert Pott – Member

Dr. Ralph Rentschler - Member

Ing. Miloš Šujanský, M.B.A. – Member

Ing. Róbert Sándor – Member

Other members of the Board of Directors in 2011:

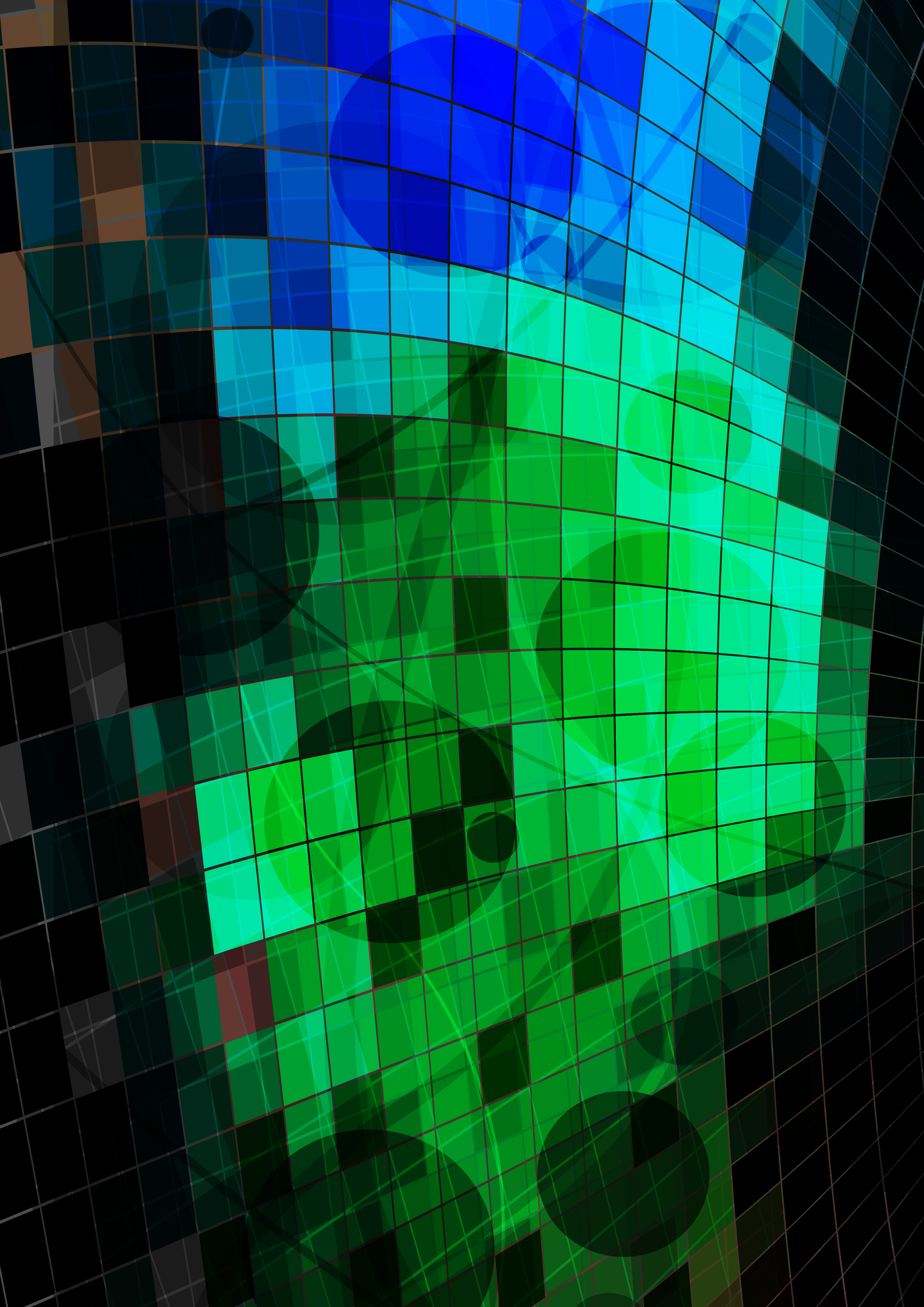
- Szabolcs Gáborjáni-Szabó, CFA, Member (until 28 April 2011)

Supervisory Board of Slovak Telekom

- Dr. Hans-Peter Schultz – Chairman (from 9 November 2011)*
- Ing. Katarína Lešková – Vice-Chairman
- Cornelia Elisabeth Sonntag – Member
- Tanja Wehrhahn – Member (from 9 November 2011)
- Ing. Miroslav Galamboš – Member
- Ing. Jan Vozár – Member
- Ing. Július Maličký – Member
- Milan Brlej – Member
- Ing. Ján Hláčik – Member

Other members of the Supervisory Board in 2011

- Andreas Hesse – Chairman (until 9 November 2011)
- *Dr. Hans-Peter Schultz – Member (until 9 November 2011)



II

Telecommunications Market in Slovakia

More competition, higher quality services

Legislative conditions

The legislative process of elaborating a new act on electronic communications began in 2010, based on review of directives constituting the so-called regulatory framework for electronic communications. The new legislation should introduce more effective protection of consumer rights and privacy, as well as reinforce regulation at the national and international level. The new Act 351/2011 on Electronic Communications has been in effect since 1 November 2011, save for some provisions concerning user relations, which are in effect as of 1 January 2012.

In connection with the new Act on Electronic Communications, the Slovak Telecommunications Office in 2011 issued regulations on its implementation. Its substance is the numbering plan, fee schedule for the use of numbers and frequencies, and details of number portability. The Office further issued a new general permit for electronic communications service provision.

Market regulation

2011 was affected by intensified regulation and a change in the regulatory positions of companies in the wholesale market for fixed network call termination, and by their being designated as having significant market power and imposed obligations, which influenced companies' mutual relations and discussions arising from such modified relationships. Furthermore, price regulation has intensified through introduction of a purely theoretical approach to setting interconnection prices of a so-called efficient operator. The results will be seen in 2012. Influenced by the trends of Europe-wide price regulation of fixed and mobile interconnection, and in particular by the European Commission recommendation on the regulatory treatment of fixed and mobile interconnection rates, the national regulatory authority started to develop another specific theoretical model for cost-based prices, which is gradually to supersede various existing approaches and become a tool for dramatic reduction of interconnection fees in interconnecting first fixed and then mobile networks. Towards the end of 2011, the Slovak Telecommunications Office in its repeated market analysis of fixed network call origination, suggested imposing a new obligation for wholesale access to subscriber lines.

In 2011 the Telecommunications Office of the Slovak Republic continued regulating mobile network interconnection pricing. The asymmetry granted to the market's third player, Telefónica O2 (permission to apply a fee higher than other market operators) was withdrawn in 2011. In 2012 the Slovak Telecommunications Office suggests another decrease of interconnection pricing.

At the end of year 2011, the Slovak Telecommunications Office has started activites towards starting tender for assignment of free frequencies for mobile broadband services in 2012. Public discussion about this topic has been realized at the end of year 2011 and in the beginning of year 2012.

Conditions for number portability among companies during 2011 were subject to regulations in accordance with the review of directives constituting the regulatory framework for electronic communications, approved at the EU level. Their implementation, in particular the shortening of number portability processing time and introduction of compensation for delayed portability or portability against the subscriber's wish, will only become apparent in the coming year.

The European Commission continued into 2011 proceedings concerning the alleged abuse of the dominant position on the broadband internet access market. The proceedings began on 8 April 2009.

In 2011 Slovak Telekom again decreased prices for local loop access. On 15 May 2011, the monthly rental fee for fully unbundled access to Slovak Telekom's local loops was the lowest in the European Union. However, not even such a price drop was able to boost the low demand for this wholesale service, and most competitors focused further on infrastructure-based competition. Only GTS Slovakia, a.s. continued its marginal use of unbundled local loop access to provide its services; the number of local loops unbundled for GTS Slovakia, a.s. totalled over 100 accesses in 2011.

The Slovak Telecommunications Office did not initiate regulation of next generation optical access networks in 2011, despite the fact that the Office's intention to regulate such networks of the relevant wholesale market for physical access to fixed access infrastructure was published towards the end of 2010. The related relevant wholesale markets of physical access to fixed access to infrastructure and of broadband access, as well as the retail market of broadband internet access, constantly showed signs that infrastructure-based competition was intensifying throughout 2011. The market situation was affected by a price decline down to the level of the least expensive countries not only across the European Union, but also in OECD countries, and also by a reduction in Slovak Telekom's share of these markets.

Slovak Telekom has been, based on a TO SR decision as of April 2006, a universal service provider, and has fulfilled all its universal service obligations. Slovak Telekom is likewise regarded as a universal service provider under the current legislation. Act 351/2011 on Electronic Communications also assumes that the Telecommunications Office of the Slovak Republic will issue, by 31 July 2012, a new decision in the matter of designating a universal service provider, by virtue of which it may designate one or more universal service providers and also opt for not imposing some or all universal service obligations.

Proceedings in the matter of compensation of net costs for the universal service, which arose in 2005-2006, or in 2007-2008, were concluded, by virtue of decisions by the Chairman of the Telecommunications Office of the Slovak Republic not to grant compensation, on the grounds that universal service provision had not been an unfair burden for Slovak Telekom. Compensation of net costs for years 2005 and 2006 will be after proceedings and invalidating first and second instance decisions again the subject of proceedings on the Slovak Telecommunications Office. The Slovak Telekom's complaint against decisions in the matter of compensation of net costs for years 2007 and 2008 has not been decided by Supreme Court of the Slovak Republic yet. Slovak Telekom applied for compensation of net costs on universal service for the years 2009 and 2010 in December 2011.

With respect to protection of economic competition in 2011, activities of Slovak Telekom were not subject to any investigation or intervention by the national regulatory authority for competition. Again this year, Slovak Telekom continued to defend its interests in court hearings with respect to the investigation on the legality of decisions made by the national regulatory authority in the past. The Supreme Court of the Slovak Republic upheld the decision of the Regional Court of Bratislava on invalidating the regulator's decision on the alleged abuse of the dominant position due to the failure to provide local loop access, for which the penalty of EUR 29.37 million had been imposed on the Company, as well as the decision on the alleged abuse of the dominant position due for unlawful price margin squeezing, for which the penalty of EUR 2.42 million had been imposed on the Company. The court sent both cases back to the national regulator for further proceedings, and the regulator is obliged to take another decision in the matter, such that its decisions meet the condition of legality and respect the court's legal opinion. In the case of the alleged abuse of the dominant position due to the failure to provide local loop access national regulator has decided in 2012: the proceedings have been stopped with final validity, because it has not been proved that Slovak Telekom had broken the law.

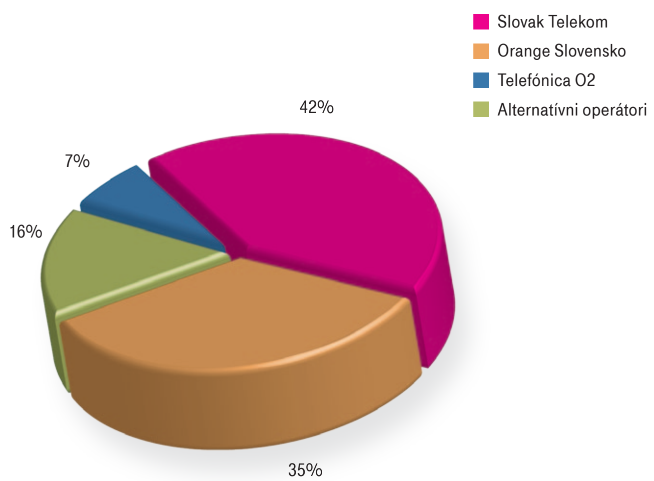
Telecommunications Market Development

One of the most significant events in 2010 was investment by fixed operators in expanding broadband networks for high-speed internet connection and digital television services, as well as further acquisitions of local alternative operators. Continuing market consolidation, which will strengthen the position of players already operating both regionally and nationally with a comprehensive offering of telecommunications services, can be expected. The determining trends in mobile communications in 2011 were increased numbers of users of mobile internet services thanks to a growing penetration of intelligent telephones; ongoing growth of the proportion of invoiced services customers to the overall customer base; and increasing accessibility and enhanced quality of 3G data services because of operators' investments in network infrastructure. The presence of the third mobile player, Telefónica O2, intensified competition, as manifested in the general price decrease of mobile voice and data services.

In 2011, market growth continued in the fixed and mobile internet segments, with smaller local operators of optic and wireless internet networks experiencing considerable growth in providing fixed internet services. The partial slow-down compared to the preceding period was also a result of rising market saturation and intensive price competition. Telecommunications operators further expanded their product portfolios, and invested in the development of their infrastructure and in the quality of customer care.

The total estimated revenue from sales in the telecommunications market in the Slovak Republic in 2011 came to EUR 2.14 billion, with a year-on-year decrease of approximately 1.4%. Compared to the preceding year, the internet services segment achieved the highest increase in revenue in absolute numbers. The Slovak Telekom Group confirmed its dominant position with a market share of 41.9% of consolidated revenue in 2011.

Market Share of Individual Telecommunications Operators in 2011 (%)



Source: Slovak Telekom, a.s., Orange Slovensko, a.s., Telefónica O2, a.s., and internal professional estimate by Slovak Telekom, a.s. for alternative operators.

Fixed Services Market

The fixed network voice services market continues to show a gradual decrease in revenue as a result of substitution by mobile voice services and voice services based on IP or broadband internet. As the largest provider of fixed network services, Slovak Telekom aims to stabilize revenue through the perspective of the best possible customer-oriented service and voice services provision in tandem with other data products.

Slovak Telekom, providing its services under the "Telekom" brand, registered a total of 992 thousand voice accesses (including Voice over Internet) at the end of last year. The decrease in the number of customers of fixed voice services came primarily in the segment of traditional voice services, with internet telephony showing slight decline too.

In the business customer segment, increasing demand continued for data and managed services as part of comprehensive solutions based on virtual private IP (Internet Protocol) networks, though overall data services sales remained at a level comparable to that of 2010.

Dynamic growth in the broadband internet connection services market also continued in 2011, with total estimated customers reaching **almost 850,000 and year-on-year growth of 11%.** The estimated penetration of broadband connections thus increased in 2011 to approximately 40% of all households. The greatest dynamics occurred in connections based on wireless technology and optical connections. In 2011, operators continued investing into expanding coverage and improving access infrastructure quality, as indicated by the increasing accessibility of services and higher access speed for end-customers. Again in 2011, continued acquisition of local internet providers by players operating both regionally and nationally brought further consolidation of the internet market, leading to standardization of products and higher-quality customer services.

In the broadband connection market, Slovak Telekom promotes services based on modern optical technology. The Company has started gradual and controlled migration of customers to this technology, as seen in the continuously improving accessibility of services based on this technology, accessible to 368,000 households at the end of 2011.

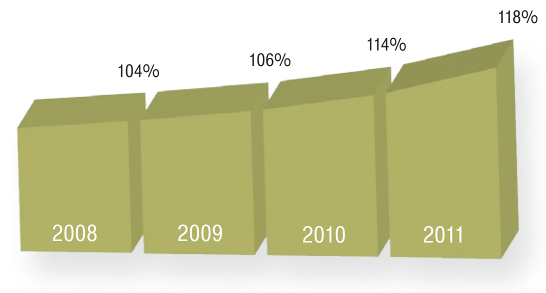
Mobile Services Market

By the end of 2011, the estimated number of active mobile communication service customers was approximately 6.43 million users (including Sky Toll SIM), indicating a penetration of mobile services at the level of 118%.

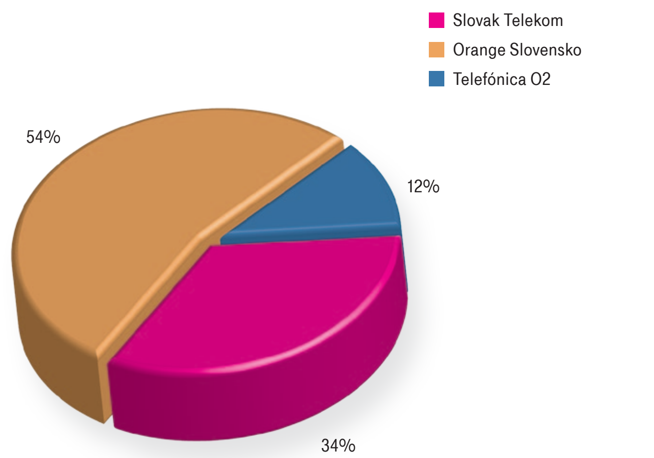
Slovak Telekom achieved an estimated market share of 34% in terms of revenue at the end of 2011. The estimated total volume of mobile market revenue in 2010 was almost EUR 1.36 billion, which is an almost identical value compared to 2010. Negative developments came mainly from a slowdown of economic growth, and customers' efforts to reduce consumption and optimize mobile services expenditures in all market segments. Growing competition in the market resulted in a general market price decrease and a more attractive offering of voice and data packages to customers. A reduction of interconnection fees charged among operators on a wholesale basis and a decrease in revenue from roaming as a result of price regulation and less voice traffic were other causes.

In contrast, continuing customer migration to the invoiced services segment, and growing penetration of mobile data services, were the main areas of revenue growth in the mobile market. In 2011, Slovak Telekom achieved total revenue of EUR 470 million in the mobile segment, with a year-on-year decrease of 6%.

Trend in Penetration of Mobile Market Services in 2008 - 2011



Specification of Mobile Market Revenues in 2010 (%)



Source: Slovak Telekom, a.s., Orange Slovensko, a. s., and Telefónica O2, a. s.

Digital and Interactive Content Services

In digital and interactive content services, Slovak Telekom operates in the market of both paid television and, via the Zoznam and Zoznam Mobile subsidiaries, online internet services. In addition to expanding the existing (traditional portal) services, one key characteristic feature of Zoznam and Zoznam Mobile operations in online services was the introduction of new services strongly orientated to mobile internet and television. Free.sk (a content-sharing platform) has been a leader in user-generated content among local competitors in the Slovak online market, not taking into account the international online giants. At the turn of 2010 and 2011, cooperation within the Slovak Telekom Group enabled customers accessing the content of portals Free.sk and Topky.sk also on their television screens via the Magio and Magio Sat digital television service. With the launch of the Telkac.sk portal, providing direct connection with Magio television, we are presenting the market a vision of interactive connection between the worlds of both online and mobile with television services.

In the paid television market, the trend of digitizing analogue terrestrial broadcast was a key topic, and the primary motor of satellite television's growth for the last two years. Slovak Telekom continued developing its Magio service; besides expanding its customer base and adding new functionalities, Magio became more interactive, and has maintained its profile as the leading digital entertainment and interactive content service of the future. At the end of 2010, digital television from Slovak Telekom, under the names Magio and Magio Sat, had more than 160,000 customers.

Data and Information-Communication Services

Again in 2011, Slovak Telekom retained its position as a leader on the market of data services for business clients. On the growing market of ICT services, in which IT and data communication services are converging as they are in the home entertainment market, the Company has concentrated on providing comprehensive ICT services with added value for big corporations. The majority stake in PosAm has enabled Slovak Telekom to implement its long-term strategy of providing comprehensive communication solutions to business customers.

Slovak Telekom Group Strategy

Slovak Telekom's strategy is linked to the global strategy of its parent company Deutsche Telekom, whose vision is to be a global leader connecting people in their lives and work. A long-term ambition of Slovak Telekom is to be the No. 1 player on the telecommunications and IT services market in Slovakia. The common factor is the mobilization of personal, social and business contacts through fixed and mobile networks.

In the last three years, the Slovak Telekom Group enhanced its service portfolio by expanding into new and growing markets (online, TV and IT services) in order to diversify the sources of revenue from areas of decline to growth areas. Therefore, Slovak Telekom's mid-term strategy for the following 4-5 years is based on four pillars, the objective of which is to retain the value of basic voice services so that growth in the Company's revenue in broadband, TV and IT services can continue.

The first pillar is based on increasing the value of subscribed mobile service customers with the lowest possible decrease in the invoiced service value, and on acquiring pre-paid customers in part through extensive sales and distribution networks of other companies (e.g. hypermarkets) and co-branding with the Disney corporation. The combination of the T-Mobile and T-Com brands, and the creation of the new Telekom brand, under the "heading" of one company – Slovak Telekom – opened up the possibility of enjoying the benefits of combined fixed and mobile product packages. The Company endeavours to further extend the scope and increase the number of mobile services utilized per customer, for example via cross-selling, such as the sale of mobile voice services to fixed voice service or internet service customers.

In the fixed voice segment, Slovak Telekom will retain its focus on fostering customer loyalty by active customer relationship management and supporting customers' positive experience with the Rodinná linka (Family Line) plans. Extension of the portfolio with converged fixed-mobile voice services, traffic stimulation within the ST network and gradual migration to voice services via broadband will require the building of sufficient residential broadband access coverage.

The area of broadband internet and paid television access is included in the second pillar. The objective for 2012 is to improve the position in the mobile broadband segment, which the Company intends to achieve primarily through extending the 3G network and increasing its speed, increasing sales of intelligent telephones capable of internet access, optimizing the product portfolio including value-added services, and by efficiently using an integrated sales approach to customers. Concerning fixed broadband, the Company will focus on maximizing optical network usage through a regional customer acquisition model and cross-selling to mobile services customers. The Company intends to exploit the potential of rural areas outside the existing fixed metallic network coverage by offering combined, cost-efficient mobile and wireless solutions.

The enhanced IPTV portfolio in 2011 with its value-added features will continue in 2012. However, emphasis will be laid on satellite television, including an expanded channel offering (with HD and premium packages) and interactive internet and home entertainment features. The Company's goal is to increase the number of customers that use TV together with other services through targeted cross-selling.

The third pillar of the Company's strategy for the upcoming years is based on the growth in provided IT services and new services "beyond the limits of traditional telecommunications services". The areas of planned revenue growth in IT services comprise cooperation with IT partners and provision of the Company's own IT solutions related to telecommunications services. Areas of IT services development also include synergies with the subsidiary PosAm in managed IT solutions and "cloud" solutions, customer applications development and outsourcing.

The objective of the fourth and final pillar is to improve the Company's performance with integration synergies within the Slovak Telekom Group. Emphasis will be placed on reducing operating expenses and a more efficient use of capital investments in information technologies and fixed and mobile networks.

Increased cost efficiency in the field of technologies will enable a gradual lessening of infrastructure complexity, system consolidation and retirement of outdated or unsupported platforms.

III

Report of the Company‘s Management

Services and Products

The Slovak Telekom Group provides its customers with a broad portfolio of fixed and mobile network services, makes use of a number of broadband and wireless technologies, sells end user equipment and also supplies call centre services. Thanks to its subsidiaries, it has a strong position in the segments of internet content (Zoznam and Zoznam Mobile) and ICT services and solutions (PosAm).

In 2011, the Slovak Telekom Group maintained its leading position in the telecommunications market, though the whole market is characterized by a high penetration of fixed and mobile services. A decline in voice services was compensated by the growing traffic and number of fixed and mobile network users of data services. Non-voice earnings tended toward an increasing share of revenues, and new uses were found for content services on other platforms. 2011 was significant for the segment of television services due to digitalization, but also thanks to establishing the Magio platform on three technologies – metallic and fibre networks and the satellite.

The internet content segment experienced increasing content demand on mobile phones, reflected also in the rapidly increasing share of mobile phones in yearly sales. In selected weeks, the share of sales of smartphones exceeded 70% of total sales.

ICT services had an increasing share of revenues thanks to consolidation of the PosAm Company and Slovak Telekom's own activities, such as opening a state-of-the-art data centre in June.

Customer Care Services

The focal point of providing services is a high level of customer satisfaction, formed during first contact and solution of various requirements. Along with a widespread sales network, it is telephone contact with customers that plays a significant role.

The main activity of the Contact Centres Section is providing services to customers in call centres. Besides phone contact, the section also provides for mail and email communication with customers. At the same time, it also operates the back-office, which administers services in systems and performs other activities in support of customer care and sales.

Call centres operate several toll free numbers where customers can get any necessary information on Company services and products. Part of the launch of the new brand of Telekom was unification of customer lines 12345 (for mobile network services) and 0800 123 456 (fixed network services). The new common Telekom Customer Line has been available to all customers for free, since October 2011, at 0800 123 456.

There was a gradual extension of the portfolio of services provided in call centres, to give customers the best possible access to information on integrated Company services and, at the same time, to help them make orders over the phone. There was also a continuing process of harmonization of emergency lines, giving customers technical support for all provided services on fixed and mobile networks. Integration and harmonization also occurred on lines for customers to receive information about telephone numbers as well as a wide range of information on culture, transportation, tourism, etc.

Wholesale services: Support for Developing Telecommunications Services

Slovak Telekom operates several technologies and, along with the sale of its own services, it is an important player in wholesale services and providing fixed technologies to alternative operators in the market.

In the integrated Company's first year of existence, the wholesale segment met and in many areas considerably exceeded its tasks and goals; this resulted in exceeding projected service revenues from wholesale partners **by more than 13%** compared to the plan. In 2011, Slovak Telekom continued in development of wholesale telecommunications services, underscoring its position of Slovakia's comprehensive provider of wholesale services.

The Company focused on innovations of data wholesale solutions, as well as developing cooperation with new wholesale partners. The plan was exceeded in both fundamental categories of products: providing national and international voice services, and sale and rental of data services and infrastructure to national and international partners.

Data Services

Thanks to innovations and technical parameter changes (in band width, communication protocols, etc.), high quality, and the commercial conditions for providing data services, the Company managed to prepare interesting solutions for its wholesale partners. The greatest success in 2011 was experienced by Ethernet technology solutions. Revenues from the Carrier Ethernet service exceeded planned revenues by more than 43%. The newly prepared service Bitstream Access, with connection at the Ethernet level, will be available for our partners over metallic and fibre infrastructure. The service enables wholesale partners to collect traffic operations and access broadband services through DSL or FTTH/FTTB technologies. That extended our wholesale partners' options for utilizing our existing lines to provide their own broadband services to end users.

Solutions based on Ethernet technology were also interesting for our international partners. In part because of this, the Company managed to meet the plan of revenues from international data services even despite the continuing decline of international unit prices. Sales of transmission capacities to Ukraine also continued successfully, with the focus on backbone broadband solutions. Altogether in 2011 there transmission capacities were implemented in the band width of over 30 Gbit/s, thanks to which the volume of capacities sold to the Ukraine exceeded 70 Gbit/s.

Voice Services

In the field of national voice services, 2011 was characterized by intensifying cooperation with telecommunications services providers and regulation of internal processes. Care for our partners' mobile services was assumed directly by the wholesale segment. Partners of the Company were provided with a single point of contact to manage their requests for the comprehensive portfolio of services provided. Implementation of the 4-day number portability process was prepared based on requirements defined by the Telecommunications Office of the Slovak Republic.

There were 25 new partners connected during the year of 2011, increasing to 115 the number of international business partners in international voice services. Opportunities for trading in international transit voice operation (hubbing) over the Slovak Telekom network, as well as the possibility of acquiring cost effective termination of outgoing international voice traffic, were expanded. The quality of our voice transit service was confirmed by the fact that mobile traffic accounted for as much as 80% of total transit operations over the Slovak Telekom network in 2011. Utilization of flexible traffic routing through partners made it possible to reduce cost pre unit for outgoing international voice traffic by almost 13%.

Voice Services: Stylish Innovations and Diverse Packages

The voice services segment saw a consolidation of monthly calling plans last year. At the same time, however, Slovak Telekom introduced several innovations in prepaid cards and offers for smaller groups of customers, such as children and students. Various bonuses, flexible packages, and the possibility to combine plan services in the Podľa seba (My Choice) best selling plan format continue to be attractive.

Prepaid Cards

In the course of the year, Slovak Telekom extended its offering with new card types. The biggest innovation was launching Disney collection prepaid cards in March 2011. They are available in two alternatives with different contents: Hannah Montana motifs for girls, and Cars movie motifs for boys. Prices are uniform, with calls 10 cents per minute to all networks, and 6 cents per SMS. The card itself is sold in a special package, which contains stickers, tattoos and access for children to special content. The cards are, from the very beginning, blocked for calls to audiotext numbers or other unsuitable content types. Moreover, in October, Parental Services were introduced for Disney collection prepaid cards, providing parents with an overview of the child's usage, enabling location tracking and presetting a fixed list of telephone numbers.

In the summer, Slovak Telekom also offered the Easy Free new card, which offers prices similar to the Disney collection cards (calls for 10 cents, SMS for 6 cents), with the traditional Easy design.

Fix Plans

Fix plans remain the standard part of the portfolio, offering a special combination of monthly calling plans with fees but with the attribute of credit. This is drawn as necessary depending on the use of selected services, i.e. charges for calls, SMS, data or content services are made against the credit. There are four plans in the portfolio: Fix 0, 9, 12 and 16, the bigger plans having various benefits, such as extra credit.

Monthly plans (mobile network)

The offering includes several types of calling plans: Bez záväzkov (No Obligations) and Program 40 for customers with the least needs, standard Relax and Viac plans, and the family of Podľa seba flexible plans.

The four variants of Podľa seba (1, 3, 5 and 7, depending on the number of packages) were gradually enhanced. Slovak Telekom introduced several packages, such as 80 SMS or 1,000 free minutes of calls during the day, in various offers with the same principle: customers choose and, if necessary, change services in the plan, using packages containing various quantities of free minutes, cheaper calls, SMS and data.

The Christmas offering gave customers the chance to get some money back in cash or in an extra services package. At the same time, plans changed to Podľa seba Naj, with the offer featuring new packages such as free SMS, Neobmedzený mobilný internet (Unlimited mobile internet) or Neobmedzené volania večer a víkend (Unlimited evening and weekend calls) to the fixed and mobile network. Also the additional service Volania najbližším (Calls to My People) became very popular – offering unlimited calls, SMS and MMS to three numbers in the Telekom network.

At the beginning of the new school year, in September, Slovak Telekom launched an innovation: Študentský paušál (Student Plan). For this, there is no standard monthly fee, and students pay only for the services used. Each SMS costs 6 cents, and calls are charged progressively: the first 100 minutes at 13 cents per minute, and starting with the 101st minute the charge is 6 cents to all networks. Students also get the Internet v mobile 500 (Internet in mobile phone 500) for free for the first 12 months. Moreover, there are discounted Sony Ericsson, HTC or Apple smartphones offered with the plan.

Discounted phones for mobile plans

Over the last year, Slovak Telekom launched dozens of phones of various world-known brands. Out of the most successful models, it is worth mentioning the Nokia C5 and C5-03, the entire Sony Ericsson Xperia range including the Xperia Play model for gamers, Samsung's Star II, and special brand phone Hello Kitty, the LG P690 and T500, and the HTC Wildfire S.

There were also several flagship models introduced: the Nokia N9, Sony Ericsson Xperia Arc S, Samsung Galaxy SII, LG Optimus 3D, HTC Desire S and iPhone 4S.

In June 2011, Slovak Telekom started its initiative of offering the biggest range of EUR 1 phones and models in the market. This approach also became the leitmotif of the summer campaign, with the offering including both new models and older best sellers that had no successors and customers still interested in them.

Several changes occurred in sales of discounted phones in 2011; the largest is a trend towards smartphones in the offering and their gradually increasing share of total phone sales.

Roaming

The roaming offering includes best practices from the past, such as Euro roaming (with standard Eurotariff prices) and Roaming Plus (offering lower rates and free incoming calls in selected holiday destinations). At the same time, a new plan called EU-roaming was introduced, with lower outgoing call prices.

Monthly plans (fixed network)

In 2011, Slovak Telekom offered several discounts on plans for those with residential voice plans in special offers or lower monthly fees.

In the summer, so-called double versions of the favourite plans Doma Uni 20, Doma Uni 60 and Doma Maxi were launched; they contain double free minutes for a certain surcharge, and offer a better alternative for customers who want to call more and get a better price per minute.

There were two packages of Výhodné volania do zahraničia (Cheap Calls Abroad) (with 30 or 50 minutes) introduced for the Rodinná linka (Family Line) plans, calls to mobile numbers for 9 cents per minute, and the Voláme spolu (We Call Each Other) service, with unlimited calls to one number for a monthly fee (50 cents in this special offer).

Internet Service: Faster Plans and Parental Service

In 2011, new extensions for 3G networks (increase of the download to 21 and later to 42 Mbps, and increase of the upload to 5.8 Mbps) were introduced and implemented to the product portfolio. Maximum speed for particular mobile internet plans changed several times and also the internet access plans for mobile phones changed. The portfolio of fixed internet connection remained in its established form with a minimum number of changes. In August, Slovak Telekom introduced Parental Control for both portfolios, and has been educating parents about setting a necessary level of protection for their children's surfing, or encouraging them to go discuss internet content together.

Tablet computers are another important area, showing up more and more in special offers or in combination with buying Mobile Internet.

Mobile Internet
Two groups of plans remain in the offering – Unlimited mobile internet has gradually gained ground and became increasingly popular among users. There are three plans with basic package sizes, allowing basic data downloads with speeds of up to 42 Mbps, and then speed is reduced with no extra charge for further data.

The second group is composed of classic data plans with fixed data volumes: Mobile internet 500, 2,000, 5,000, 10,000 and 20,000 MB. Progressive maximum speeds of up to 42 Mbps also applies to these packages, and data above the limit can be downloaded for specified fees.

The portfolio still contains the popular Mobile internet EUR 0, providing mobile internet up to the maximum speed without monthly fees. It is charged as usage on prepaid cards, i.e. data is drawn from the credit on the SIM card; customers top up their credit when necessary. During selected periods, Telekom also offered the possibility of bonus data – a larger data quantity at the same price.

Internet v mobile (Internet in the mobile)
Significant changes were made in mobile surfing plans. The original family of web'n'walk plans was modified; first in February and then, in September, a brand new offering was presented. The range of Internet in the mobile plans simplified the offering, with three plans based on data need and size and broken down by customer group. Internet v mobile 100 is intended for occasional users, Internet v mobile 500 will suffice many first-time smartphone customers, and Neobmedzený mobilný internet (Unlimited mobile internet) is designed for experienced or demanding customers (it comes with 2,000 MB of data downloads at full speed and, after exceeding that limit, slows down with no further data transmission charge).

A new service was launched in the second half of January: web'n'walk 25 for Easy cards and Fix plans. It provides clients with a 7-day package of 25 MB of data for EUR 0.99. It can also be activated for the Easy Free new card and for Disney collection prepaid cards.

Data roaming
The launch of Travel & Surf set of plans for surfing abroad, was an important innovation. It comes from a shared initiative of Deutsche Telekom and offers three plans: a day package with 5 MB of data, a week package with 20 MB of data, and a week package with 80 MB, with download speed reduced after exceeding the limit but with no further charge for data.

Navigation via mobile phone
Slovak Telekom started offering a new service – Navigácia Sygic GPS (Sygic GPS navigation). This exclusive service gives customers a choice of two map packages to download to their mobile phones (either maps of four countries – Slovakia, the Czech Republic, Hungary and Austria – or maps of all of Europe) and use them on their smartphones for a low monthly fee (EUR 1.39 for the four-country package, and EUR 2.39 for all of Europe). Customers can use this flexible service with no contractual obligation and can try it out for a 14-day test. Then they can use navigation right in their phones, together with a lane assistant, 3D maps, online information about towns and weather and even navigation in Slovakia that includes traffic information.

It is the first time the operator, in cooperation with the service originator, offers the service directly to its customers.

Fixed broadband internet
There were several changes implemented in the portfolio of Magio internet plans (for DSL users), or Optik internet (for users on the optic network). Since February, the Turbo 2 plan (as well as the Solo version) has been providing 2 GB of data for transmission at full speed. Turbo 3 has had upload speed increased to 512 kbps.

Parameters of plans also changed in the Optik internet portfolio. In August, FUP was cancelled for the plans, and upload speed was increased to 8,192 kbps. For the Optik 2 plan download speed increased to 30 Mbps, and for the Optik 3 plan it increased to as much as 60 Mbps.

There were several special offers introduced during the year; customers could get internet plans for EUR 8.99 or EUR 6.99 per month, or through a special limited-time offer could get free internet connection until the end of the year. With the plans it is also possible to use combinations of selected services, and get DUO or TRIO discounts for monthly fees for services.

Discounted equipment
During 2011, Slovak Telekom introduced several new modems to both mobile internet technologies. The Company continued developing new hardware for the FLASH-OFDM technology and introduced two Leadtek Wi-Fi routers. For new extensions on 3G networks (HSPA+ 21 and 42 Mbps), the Company introduced several new modems supporting Huawei maximum speed.

In the course of the year, Slovak Telekom also offered several discounts on notebooks and tablets to internet plan customers. In the spring campaign customers could get a discount of up to EUR 100; in August and December there were tablets and notebooks offered for selected plans, with prices starting at EUR 1. In this way too the Company hopes to encourage customers to buy new equipment and use its services.

The offering has started to feature tablets sold primarily for data plans. At the beginning of the year the original model Samsung Galaxy Tab (with 7-inch screen) was offered, with the Asus Transfomer offered in the summer and Samsung Galaxy Tab 10.1 at the end of the year.

Business Customers Portfolio: Bigger Packages and Exclusive Services

Orientation on business customers continued in two directions in 2011. Along with tailor-made solutions, the offer included several proven services enhanced by new types of benefits.

Mobile networks
There was a group of Podnikateľ (Businessman) mobile service plans prepared for self-employed people and small businesses, gradually supplemented with other components and offering the possibility to put together a comprehensive package of services for a uniform monthly fee. The basic component is a package of free minutes to all networks in Slovakia, the EU and the USA. The plan also contains a data package (or the BlackBerry service), free SMS, and Unlimited calls packages at certain times (peak, off-peak, non-stop). That approach is, as with the offering for individuals, favourable from the viewpoint of individual customer needs and preferences, combining plans as they choose. Over the year there were several special Podnikateľ plan offers introduced, allowing customers to receive extra services for the same price or even cash of up to EUR 300 in the Christmas campaign.

For small and medium enterprises, two plans are offered: Firma (Company) and Firma Extra (Company Extra), in which employees use a shared calling plan and more favourable prices of calls to networks in Slovakia and the Czech Republic.

Business customers have traditionally had a strong demand for the offer of roaming services too. Along with the existing offering of Euro roaming, Roaming Plus or new EU-roaming services (offered first to business clients and only later to other groups of customers), customers may also use two exclusive services. Smart roaming, as a part of the monthly fee, makes it possible to receive calls in mobile networks of European operators in the Deutsche Telekom Group for free, and send SMS and MMS messages the same price.

In June, a new service was launched: Podnikateľ roaming, giving customers cheaper calling prices in more than 50 countries. Those countries form a special zone, where the following charging system applies: the first minute is charged at the standard rate for outgoing calls in the country, and starting with the 2nd minute the uniform price of 13 cents per minute applies.

Fixed networks

The Business line plans are the main offering for self-employed people and small businesses. Optional calling plans combine free minutes to fixed and mobile networks and are intended for active customers. Biznis Uni 50 and Biznis Uni 150 can be selected in three variations: with contract period of 12 or 24 months at a discount or with doubled free minutes. A strong position in the offering has been taken up by the plans Biznis Mesto (Business City) and Biznis Slovensko (Business Slovakia) with unlimited calls. If the customer calling plan contains no free minutes to mobile networks, they can make cheaper calls to them for as little as 6 cents per minute.

Another comprehensive solution for small enterprises and self-employed people is Benefit, which combines voice services, DSL connection to the internet, and the functions of a modern branch exchange. Besides free unlimited calls to fixed networks in Slovakia and abroad, it also offers cheaper calls to mobile networks and functions such as virtual office, synchronizing with MS Outlook, etc. It is available in several alternatives depending on the number of users: Benefit Start for a single user, Light for two, Optimal for four and Benefit Intensive for eight users.

TV Services: Breakthrough Year on the Digital Television Market

In 2011, Slovakia's television market was dominated by the final process of television broadcasting digitalization, which, despite growing competition, saw further growth. The satellite version presented last year helped Magio gain ground even in less densely populated areas such as rural areas or remote settlements, with the product also gaining ground in urban locations with metallic and optic lines. Slovak Telekom is thus the only operator in Slovakia that provides digital television on all three platforms and, thanks to that, the total number of Magio customers already exceeded 150,000 in June.

In the course of the year, Slovak Telekom continued adding the interactive functions and enhancements to the user experience that have long defined Magio television. The mCore IPTV platform upgrade was an important step that made it possible, to offer even more sophisticated applications in 2011 based on direct interaction with viewers. Further innovations focused on adaptations to the television grid based on viewing statistics, and improving the content on demand. Current movie hits of two Hollywood studios were added to the video rentals, and customers can now also use the television broadcast archive. Also, the choice of high definition channels was expanded by a free package of 10 channels in HD resolution for customers on the optic network. The signal of most of these channels comes directly from the broadcaster in HD quality of 1920x1080i, thanks to which customers can enjoy the maximum possible audiovisual quality.

The aforementioned upgrade of the Magio IPTV platform (mCore) to a later version made it possible to develop unique applications for IPTV set-top boxes built on the new framework. This also brought in new functions, such as sending notifications and messages to customers to set-top boxes. In order to utilize the IPTV platform's new possibilities, there was an additional need to upgrade the application framework, which currently provides platform for applications such as Magio Portal, Web EPG, Mobile EPG, Magio Store, Games, etc.

The increasingly frequent combination of the worlds of television and internet was reflected in the deployment of the largest social network's application. Using the Facebook application Magio TV customers can view posts, send comments, and add Likes, all using their TV remote control. The application enables them to set up multiple user profiles, so in households with several Facebook users, each of them can have his or her own account.

A long-awaited service under the common name Spustenie programu od začiatku (Playing the programme from the beginning) and Magio archive (Magio Archive) provided customers with the function of playing a programme in progress by rewinding it and viewing TV programmes already broadcast. This function automatically records selected TV channels so that it is possible to view them even 7 days back.

Magio TV can proudly announce it is the only one in Slovakia to add a second "major" studio to its movies on demand offering. Movie hits from Universal were complemented by works produced by another famous Hollywood studio: Walt Disney. Magio viewers can thus enjoy the latest new movies at the same time they are released on DVD or Blu-ray.

Development of Mobile Content, Premium Business and Online: Integration of Three Screens

In 2011, in the field of premium, content, entertainment, payment and advertising services, Slovak Telekom developed a successful project started back in 2010, called Digital Life Center (DLC). This managerial entity continued the process of consolidating business on the three screens, for cross-selling and up-selling among the respective environments. As early as 2010, customers could use many services on their PCs on the internet (on the Zoznam portal) and on their mobile phones, and several services were even added to televisions thanks to Magio TV.

Mobile phones have increasingly taken on the role of remote control for several environment (screens), including the function of electronic wallet in various environments (with especially huge growth online, i.e. via the internet). At the same time, new business fields, such as mobile advertising, are coming right into mobile phones, diversifying the existing mobile business.

Another very important tendency that has continued for three years now is the increase in regular accesses to the internet using mobile phones; along with special website adaptations for mobile phones, certain internet services had come even to TV screens before the end of 2011 (e.g. various applications enabling controlling community internet services through the TV screen from the comfort of the living room).

A success of the DLC concept in 2011 was also reflected in financial performance – revenues for those services, including Zoznam, exceeded EUR 35 million, which is more than 5% growth compared to overall performance in 2010.

Telekom online and mobile phones

In 2011, company intensively worked on preparation of on the integrated and unified web site www.telekom.sk, which in October put together, with a new visual and in one place, all functions of the original web sites www.t-com.sk and www.t-mobile.sk. The process resulted in a successful and full-scale integration of e-shops, e-care services and info services, without any operational downtime. The more than one million average unique visitors per month after the integration indicates that customers are also appreciating Telekom's new electronic headquarters. The best proof of this is the significant two-digit increase of the e-shop share of total Company sales in the crucially important fourth quarter.

At the end of the last year, the beta version of an e-shop intended for access over mobile phones was also prepared; the web site gained functions such as operator chat, so that customers could use other communication options in an easy and integrated manner.

Payment through mobile phones

The development of the new role of mobile phones as a convenient means of payment for consumer goods, without the need of a bank account and with a direct payment to the mobile operator, continued in 2011. There was an increasing tendency in customer interest, the number of services in the portfolio and revenues.

For example, in the field of transportation, the service of selling public transport tickets was extended to smaller towns, and paying for parking by SMS is available in almost ten towns in Slovakia now. It is possible to buy more and more small products by sending an SMS. SMS payments on the internet experienced substantial growth, especially after launching the "platbamobilom.sk" project, enabling owners of various e-shops to implement the automated payment system very easily.

A specific and important subcategory of micro mobile payments is gambling. In cooperation with Tipos, we continued in 2011 to support SMS betting projects. The World Ice Hockey Championship was a specific project last year that enabled customers to bet on results of hockey matches on their mobile phones.

Mobile advertising

This is a new area, on the one hand lacking in market standardization, with large barriers in Slovak legislation and overall awareness among business users; however on the other hand it experienced significant progress in 2011. Little by little, several campaigns were carried out using direct channels (SMS), as well as mobile portals (wap, web'n'walk, banners, links and sub-sites on Zoznam). Slovak Telekom also adapted and modernized a service for utilizing SMS advertising (Advertising info channel), with almost half a million active registered users at the end of the year.

Sales and demand on the market grew gradually; there were almost 50 campaigns run during 2011. The potential of this area overall is still in the future, and it may later become a new and important source of revenues for Slovak Telekom.

Internet Content Services: A Strong Year for Zoznam.sk

A whole range of changes occurred on the Zoznam internet portal, a DLC activity. Zoznam was, in general, successful in financial field; it recorded excellent revenue growth compared to 2010 and a more than 50% increase of EBITDA. The number of visitors also increased compared to 2010.

Zoznam.sk is one of the strongest representatives on the Slovak internet, providing users with several dozen web sites. The Zoznam.sk portal is among the most popular. The second most popular was the news portal Topky.sk; and among the most commonly used products is the web search for information, in the catalogue of corporate sites and phone numbers. A range of entertaining and educational information is offered by the following magazines: Feminity.sk, Dromedár.sk, Autoviny.sk, oŽene.sk, oPeniazoch.sk, Baby-web.sk, and the latest addition: PlníElánu.sk.

On Zoznam, users can find other sites full of useful information and data, such as Slovníky (Dictionaries), the Pauzička (Short Break) entertainment portal where they spent 294,374 hours playing games in 2011, and the job portal Kariéra.sk, which is has the fastest-growing visitor rate out of the entire product portfolio.

At the beginning of the year, Zoznam.sk presented an innovated map solution with a brand new design and functionality. The new mapa.sk takes into account all user-relevant criteria and expectations, such as convenient use, transparent design, and logical arrangement of controls. The name of the domain changed too; the original Kompas.sk changed to the more intuitive and easy-to-remember mapa.sk.

Changes occurred in all content magazines, which are taking on common features and unifying components. Thanks to colour scheme and other details, however, each of them retains its own character. In 2011, Zoznam.

sk redesigned the lifestyle magazine Feminity.sk, news portal Topky.sk and travel magazine Dromedár.sk. Along with magazines, the front page of Zoznam, Kariéra.sk job portal, Hudba.sk, and imhd.sk (the most comprehensive portal of municipal public transport), have likewise been redesigned.

Another product innovation worth emphasizing is the group shopping portal BOOMER.sk, bringing out discounts of more than 50% every day. It is the philosophy of the brand to offer products interesting for both retailers and consumers. In the case of group shopping, what matters most is satisfaction of clients with the quality of products and services, along with the price. Therefore, the goal of the product is to maintain the quality standards expected.

Zoznam.sk expanded its content offering, adding a portal about hardware, software and IT news: pc.sk. This technology magazine comes with detailed reviews of computer components, peripherals, expert articles and the latest tests of mobile phones.

In cooperation with Deutsche Telekom, Zoznam launched an internet-based computer games shop with in Slovakia, enabling legal downloading of computer games. Gamesload offers unique access to PC games with no waiting for delivery. Games are available immediately after payment and downloading to the computer.

In 2011, Zoznam launched a new TV channel called Telkáč.sk – a personalized online television station with simple settings and transparent control. The online TV program www.telkac.sk also provides users with the possibility of remote setup for recoding favourite programmes on the Magio Box, setting e-mail reminders for viewing shows, and the possibility to assess and recommend shows through social networks (Facebook, Google+). Remote recording to Magio is also available using the iPhone Magio TV application, which became the winning project at the first mobile applications competition, Appsrulezz 2011.

Zoznam and its partner was the first of Slovakia's largest internet players to offer electronic books, with a special application (Raj kníh/Book Paradise project) that makes it possible to buy books over by mobile phone and SMS.

At the end of the year, the Zoznam.sk internet portal added two innovations to its product portfolio, intended to contribute to further growth. The magazine startup PlníElánu.sk fills a niche in Slovakia's internet for a fast growing segment of users above 40 years of age. The second product is Dopytovač.sk, a new platform built on the base of Zoznam Katalóg (Zoznam Catalogue), which facilitates communication of clients with their suppliers among small and medium enterprises.

ICT Services as Growth Potential

The ICT market in 2011 could be characterized by modest recovery and slowly-growing expenditure, and an even stronger inclination towards effectiveness. Companies need to focus on their core business activity, and therefore expect ICT to provide them, above all, with flexibility, dynamics and savings in the current economic situation. ICT resources are copying the current requirements of corporate processes, in order to avoid slowdowns or unjustified costs. One word heard more and more frequently was Cloud computing, a new means of providing ICT services on demand.

After incorporating the PosAm Company (an important provider of application solutions, services and infrastructure solutions to corporate customers), into the Slovak Telekom Group, the Company focused on exploiting synergy effects and accomplishing its process of transformation into a comprehensive ICT operator. A separate ICT Service Section was established at Slovak Telekom; it is responsible for development, preparation and implementation of customer solutions.

From that perspective, the most important event was the June opening of Slovak Telekom's state-of-the-art data centre in Bratislava, in Varšavska Street. The unique 5-story building was, from the very beginning, designed with an emphasis on the highest technology, security and environmental standards. Telekom Data Centre is filled with the latest technology, meeting GREEN IT requirements, which under continuous operation brings substantial savings of electricity for cooling and connection. More than 40% of the new data centre's area was occupied less than 6 months after its opening; among the first customers were VÚB Bank and Allianz – Slovenská poistovňa.

Telekom Data Centre project comes in at a very suitable time, underlining the long-term strategy of Slovak Telekom to provide a comprehensive portfolio of ICT services with added value. The new data centre has created opportunities for scalable services, from a simple server housing to cloud computing, and comprehensive solutions containing our customers' Business continuity plans and Disaster recovery plans. Along with the possibility to order data connection from Slovak Telekom, the wide array of solutions has the goal of attracting not only large companies but also small and medium enterprises, for which data centre outsourcing is an ideal way to resolve their info-communications needs

ICT Solutions by PosAm

PosAm designs, implements and operates its own services, and application or infrastructure solutions, in key business segments. The principal benefit for customers rests in increasing the effectiveness of both main and supporting processes. The Company offers its services to several segments.

Banks

PosAm provides solutions aimed at supporting main processes, such as mortgage loans, VIP clients, corporate clients, and supporting processes related to preparation of budgets, central purchasing, asset management, document lifecycle management and identity management. As a part of its comprehensive customer care, PosAm provides full IT operation and SW development on an outsourcing basis. References: Citibank a.s., Dexia banka Slovensko a.s., Slovenská sporiteľňa a.s., Tatra banka a.s., VÚB a.s. and other companies.

Financial Institutions and Insurance Companies

Solutions for insurance companies support mobile sales through sales representatives, Customer Relationship Management and the issue of insured events handling. Covering these main processes significantly contributes to innovations in the sales network management, fast introduction of new insurance product sales, and increase of customer satisfaction and loyalty. References: AEGON Životná poisťovňa a.s., Allianz – Slovenská poisťovňa a.s., UNIQA poisťovňa a.s., Union zdravotná poisťovňa a.s. and other companies.

Manufacturing and Network Industries

In this segment, PosAm focuses primarily on providing operating services, outsourcing and development of applications supporting controlling, main and support processes. Domain knowledge guarantees a high level of professionalism in providing services and development of tailor-made applications. References: ČEZ, a.s., Jadrová a vyraďovacia spoločnosť, a.s., KIA Motors Slovakia s.r.o., Rajo a.s., Siemens s.r.o., Slovenská eketrizačná a prenosová sústava, a.s., Slovenská pošta, a.s., Topvar, a.s., Volkswagen Slovakia a.s. and other companies.

Telecommunications and Media

This business group focuses on consolidation of infrastructure, applications and value added services.

Public Administration

In the public administration and local government segment, PosAm has, in the long-term, focused on software development of support to main processes and providing operating services. Budgeting in state administration is a key process managed by a solution of PosAm: the budget information system (RIS), a necessary precondition for the state treasury's operation.

PosAm has also been active in the field of health care, where it implemented solutions for health registers, terminology and secure communication among health care providers and health insurance companies.

PosAm Infrastructure Solutions

PosAm designs, implements, operates and performs servicing of separate or integrated infrastructure features, with the main focus on the consolidation of information systems. Infrastructure solutions also include application delivery, storage, backup, archiving, virtualizations, design and implementation of security features for access to the internet, corporate knowhow and information. PosAm uses progressive technologies from its partners – Cisco Systems, Citrix, Hitachi Data Systems, Hewlett-Packard, IBM, Lenovo, Microsoft, Oracle and VMware.

PosAm Application Solutions

Deployment of application solutions provides customers with benefits as they work to make their corporate processes, internal communication and knowledge management more efficient. Solutions must be flexible and long-term in nature, thanks to open standards. Through continuous improvements in domain and technology knowledge, PosAm supports the entire lifecycle of applications, from design through operation. .

Information Technology: A Stable Base for Dynamic Changes

For networks and information technologies the year of 2011 was very dynamic, characterized particularly by post-integration activities. Important steps taken included organizational mergers of network divisions, integration of the interconnection fees system in the fixed and mobile networks, integration of SAP accounting modules in the former fixed and mobile divisions into a single whole, and technology integration for routing calls to contact centers. During the year the process of further strengthening of ICT area continued as well, with the opening of the new Telekom Data Centre, and establishing a portfolio of ICT products and services in the new ICT services section in cooperation with marketing. These activities were performed with a strong emphasis on satisfaction of internal and external customers and efficient use of financial and non-financial resources, changes of operation models and launching of many transformation initiatives.

In the field of technologies, the company focused primarily on launching significantly larger 3G network coverage and, at the same time, introducing new HSPA+ extensions with speeds of 21 or 42 Mbps. The upload speed increased to 5.8 Mbps. A technology test unique in the world was also carried out. Finally, a continuing extension of optic network coverage in new locations is in progress.

Information technologies

Along with innovations, the previous twelve months also demanded support for the largest transformation program in the Company's history, which, for the division of information technologies, brought the need to participate in achieved savings. The field of network operations was dominated by successful projects such as outsourcing operations and maintenance of traditional network technologies by Ericsson Slovakia entailing transfer of one hundred employees, reengineering and restructuring of services supplied by partners, assets maintenance and management, and many others.

An extended modernization program was successfully launched: network transformation, a program of key importance for the future of the entire company. IMS implementation as a part of the network transformation program was a vital step, replacing traditional technologies and integrating voice and data services of the fixed and mobile networks into a single technological platform. The project of modernizing the IP network's aggregation layer (fixed and mobile ones) as well as a pilot project in Piešťany are the key elements of the program, and are facilitating better planning of further stages of the complex program. Preparation and launching of integration of controlling and monitoring fixed and mobile network operations also saw important milestones in accomplishing technology integration and thus achieving higher labor efficiency and operations management. Those activities were and are carried out in a period of limited funds, making it necessary to continuously increase efficiency of operating and investment costs so that money saved could be reinvested into transformation.

Other activities included improvement of request and sources management processes in networks and information technologies, launching a project to optimize product portfolios, continuing revision of servicing contracts across the entire section, and consolidation of product portfolio, servers, data centers and other elements in order to increase labor efficiency and operating costs for the standardization of the networks and information technologies environment.

Slovak Telekom also continues to be visible in the field of international projects, the key aspect being continuing migration and upgrade of the customer relationship management system (NG CRM), necessary for more efficient, fully integrated labor distribution in contact centers and back office. 2011 was fundamental for the success of that program, unique in the entire world.

Technologies and networks

Slovak Telekom remains one of the largest companies from the perspective of new investment in technologies. During the year several technologies were extended, with the greatest emphasis on 3G network innovations and, in parallel, on extension of the optic network to selected towns.

Mobile networks

Among the greatest successes in extending new technologies was achieving almost 65% coverage of Slovakia by the 3G network – at the beginning of the year, the network coverage was 42%, meaning the 3G network came into many new locations throughout Slovakia. Gradually, the mobile network's speed increased in a growing number of towns and surrounding villages.

Implementation of innovations in the 3G network started on 23 March 2011, when Slovak Telekom became the first operator to put new HSPA+ technology into commercial operation. In the initial stage, the latest network extension was launched in Bratislava, Piešťany and Komárno; later in the year further locations in Slovakia were gradually covered. HSPA+ technology enabled data download at a speed of up to 21.8 Mbps and, by the end of the year, was in more than 170 locations. The company also changed for the first time supported speeds in the data portfolio, with the internet in mobile phones coming up to maximum speeds from the beginning of the technology launch. A new modem by Huawei was added to the portfolio to enable this high speed data transfer.

In the second half of July 2011, a successful test of HSPA+ 42 Mbps technology in single-carrier mode was realized. It was the first test, not only in the history of the entire Deutsche Telekom Group but anywhere worldwide, making Slovak Telekom a leader in mobile broadband. The HSPA+ test was carried out by Slovak Telekom along with Deutsche Telekom, and network supplier Ericsson, with testing terminals supplied by Qualcomm Incorporated. The test's purpose was to show maximum band use in a Bratislava city quarter; during the demonstration, options of single-carrier mode were compared to the standard dual-carrier mode, prepared by Slovak Telekom for launch in the following months. Test operation showed that the technology in single-carrier mode reached results comparable to the dual-carrier mode, and the download speed achieved was as high as 38 Mbps.

Another milestone in the field of mobile technology was the commercial launch of HSPA+ 42 Mbps in October, which doubled capacities and speed to the theoretical maximum. It resulted in increased network quality and capacity in the light of continuously growing demand for mobile broadband services. In parallel to that innovation, Slovak Telekom introduced an upgrade for faster data transmission, also adding to all locations with HSPA+ 42 Mbps an extension for uploading at a speed of 5.8 Mbps. Both technologies were launched (19 October 2011) in five towns: Bratislava, Nitra, Piešťany, Sládkovičovo and Nové Zámky. By the end of 2011 the coverage extended to 10 towns (with Banská Bystrica, Trnava, Trenčianske Teplice, Martin and Vrútky added).

Slovak Telekom thus reaffirmed its goal of becoming a mobile broadband leader and the player first to bring technological innovations to the Slovak market – in the course of the year becoming the first to launch all three extensions of the 3G network and carrying out a test unique in the world.

Fixed networks

In the fixed network, the company continued investing in extending optic and metallic coverage, thanks to which it achieved the milestone of 368,000 households covered by optic network and more than 1.2 million households by metallic connection. It is Slovak Telekom's endeavour to bring broadband access services not only to towns but also to less densely populated areas.

Digital television services (IPTV) were extended by new functionalities such as connection to the video portal Free.sk, the social network Facebook, and TV Archive which enables playing programs from the beginning and extended recording functions. Those functions became available after the transition to the new version of Mediaroom 1.6 and 2.0 platforms. At the same time newer, faster end-user devices were offered by Motorola, based on the SoC Broadcom 7405 modern and featuring a hard drive with capacity of up to 320 GB.

Those innovations and investments prepared the network and product portfolio for increasingly larger volumes of transfer data, and newer, more powerful end-user devices for customers, along with their increasing demand for functionality and quality. Significant resources were invested in modernizing technologies so Slovak Telekom could continue providing its services at the highest level, thus providing its customers new products reflecting the upcoming trends.

Human Resources as a Partner in Business

In 2011, the Human Resources Unit significantly contributed to the ongoing transformation of Slovak Telekom. Once again, Slovak Telekom pursued its ambition to be an attractive employer for both existing and potential employees. The efforts focused on preserving the nature of the HR Unit as a change facilitator, flexibly responding to changes in the labour market and among employees and providing the best solutions and services to internal customers based on business needs and organisational priorities. Human resources as a support unit reflected the size and needs of the organisation.

In 2011 Slovak Telekom had 3,871 employees, consisting of approximately 59% men and 41% women. Over the same period the headcount of Zoznam and Zoznam Mobile was 59 employees, where more than 49% were men. PosAm had 268 employees, consisting of 79% men and 21% women.

The 2011 year-end data indicated that the average age of an employee of Slovak Telekom was 38.5 years, while the average age of employees of Zoznam and Zoznam Mobile was 32 and of PosAm 37.3. More than 49% of Slovak Telekom employees are university graduates; secondary school graduates with a final school leaving examination amount to 51%.

Remuneration and employee benefits

Gradual alignment of organisation structures, job positions and remuneration throughout the Company continued in 2011.

The IT and telecommunications sector is in the long-run among leaders in remuneration. This is why the Company endeavoured, in the process of harmonising organisation structures and job positions, to align and set up a fair and competitive remuneration policy and schemes reflecting the situation in the Company and on the Slovak market.

In its alignment efforts with respect to non-managerial positions, the HR Unit started designing a variable remuneration scheme for frontline positions, where it was necessary to apply joint rules for particular groups of job positions. In the following months, the Company worked on designing the remuneration scheme for other groups of job positions to be implemented in the course of the year. The employees continue to be rewarded based on their individual performance, which is also reflected in payment of the variable part of salary for frontline employees and of the individual part of bonuses for other employees.

The Company continued providing benefits in the form of the so-called cafeteria, i.e. by selection from pre-defined products and services, where employees can get discount or favourable conditions for purchases (e.g. in relation to healthcare or recreation facilities). Starting from October 2011 employees were given the option to choose meal vouchers from two suppliers. In 2011 employees were offered a simplified portfolio of fixed network and television products. Employees could also use discounts for fixed and mobile products in the form of discount vouchers for their friends.

One of the areas which saw several positive changes was the mobile phone policy for providing mobile handsets and devices as working tools. From the end of 2011, employees are able to choose work telephones of their choice from all mobile handsets the Company offers.

One of the priorities for the upcoming years is the development of new applications, as well as setting HR tools in order to increase effectiveness of selected processes.

Education and development

Education and training was in 2011 focused primarily on the development of employees in direct customer contact. A whole range of development activities for this target group was implemented, with co-funding from the European Social Fund.

Along with using external services, internal platforms were further developed, such as workshops, internal coaching and moderated discussions for employees on technical topics, called Hot Chairs. Motivation competitions such as Service Hero, with its strong focus on supporting pro-customer behaviour, and Best Performer, promoting the Company's long-term high-performance initiative, also continued as internal activities.

The development of attitudes and competencies necessary for coping with change and change management was a priority for corporate culture, and the underlying theme of both Flyfish, Slovak Telekom's internal conference, and workshops focused on supporting corporate culture and leadership. In 2011, internal facilitators led 12 workshops for 110 managers. To intensify communication between employees and top management, the platform "A Day with a Top Manager" was introduced. The initiative gave employees the chance to join a moderated discussion concerning leadership, make an individual appointment as part of "open doors" scheme, and even experience an informal gathering with a top manager.

Another important milestone to help the Company take a further step in building the coaching culture was the start of an internal coaching programme, and developing a group of internal coaches from among employees and managers.

In 2011, the Education and Development Section organised a total of 640 internal and external training activities with 4970 participants. The average development costs per employee were EUR 257.

The major focus of developing frontline employees, as provided by the Training and Coaching Department, was on adaptation, product and soft skills training courses. The number of training courses in these areas was 744 cycles. Internal trainers provided 9,672 hours of training to educate 4,849 participants.

Also in this year, employees were invited to choose a self-training option in the form of e-learning programmes (focused on fixed and mobile products and services, working in internal systems, PC skills, language skills, or legislation). 68 new e-learning courses and 373 e-tests were deployed in 2011. The number of e-learning students was 42,500 and 39,500 e-tests were made to examine the gained knowledge.

Employee care

Slovak Telekom continues to give attention to occupational safety and health (OSH). In 2011 the Company implemented an OSH Management System in accordance with OHSAS 18001 international standards. Its bases are prevention, thorough inspection activity, a periodical re-training system and building overall employee awareness in the OSH area.

Over 2,000 employees participated in "Program zdravia" (Health Programme) activities aimed at promoting one's own healthcare. The Health Programme focuses in particular on employees' healthy working conditions, injury prevention, healthy diet and movement. The core of the programme was organizing a Týždeň zdravia (Week of Health) in May and partially also in September 2011, where employees could get examination of basic vital functions (BMI, blood pressure, body fat), health tests and blood tests (e.g. for cholesterol) and enjoy interesting lectures on various topics. These involved cardiovascular disease risk factors, occupational safety when working with monitors, healthy diet, stress protection and the like. These activities and others, such as training in skilful provision of first aid, took place continually throughout the year.

In order to expand flexible forms of employment, a Home Office Directive was implemented in February 2011, enabling employees who obtain their superior's consent to work from a place other than their typical workplace, based on their own choice.

The HR Unit obtained 45 initiatives as part of the Alexander transformation programme; these were mainly aimed at optimising HR processes, services and electronic applications. In 2011, 28 initiatives were resolved and concluded.

The Company operated the employee line 24@st.sk, which received a total of 173 employee queries, concerning in particular remuneration, benefits and personnel advising. Almost all queries were answered within a 24-hour interval.

Partner for business

2011 was also the year for completing the integration of the Network and IT Unit of the companies Slovak Telekom and T-Mobile, along with launching innovation activities. The Human Resources Unit was a partner in:

- a 10-month process of preparations and implementation of merging the fixed and mobile technology divisions, called Network Merge. Major emphasis was put on transparent manager selection for the future organisation structure (staffing of almost 100 managerial positions) and a smooth start for the division's new organisation as of 1 October 2011.
- carrying out the outsourcing of legacy technology operations and maintenance; 100 experts joined Ericsson Slovakia by virtue of transfer of rights and obligations, and this was the first managed services project in this area within the entire Deutsche Telekom Group.
- starting up ICT business in terms of staffing key positions in this strategic line of business for Slovak Telekom; the ICT area had the highest number of new hires from the external labour market in the Networks and IT Unit.

Cooperation with secondary schools and universities

In 2011, Slovak Telekom continued intensive cooperation with students and teachers at different levels. The Company participated in several job fairs for students such as Dni príležitostí (Opportunity Days) in Bratislava, Žilina and Košice, or Národné dni kariéry (National Career Days), where it was awarded the prize for most attractive booth and recognized with a Firma NDK 2011 award in both Bratislava and Košice.

The traditional programmes that the Company has consistently prepared for students include:
- Diplomovka at ST (University Thesis at ST);
- technical events, lectures, and onsite visits;
- year-round student internship for selected specialized secondary school students;
- job opportunities for students and graduates;
- Virtual student club.

In March 2011 the Company started the pilot programme Odborná stáž v Slovak Telekome (Technical Internship at Slovak Telekom) and since then 10 internship posts. The programme is intended for long-term stays of university and college students. It lasts 6 to 12 months and gives motivated students a chance to work on real-life projects and tasks in their areas of specialization, and unique experience in the environment of the largest multimedia operator.

Human Resources Unit employees organised, in cooperation with experts, numerous excursions for secondary and tertiary students to Slovak Telekom's specialized classrooms and worksites. Over 200 students had the opportunity to visit a central test laboratory, get acquainted with GPON technology and see our base stations and many practical demonstrations.

After successfully establishing long-term cooperation with secondary schools, again in the 2011/2012 school year select students of the Banská Bystrica specialized secondary school are gaining practical experience in service worksites. In early 2012 the workplaces are being visited by four 4th year students. The Company also plans to involve their younger school-mates in future cooperation, and expand the scheme to other regions.

Another milestone was the organisation of the seventh annual conference Telekom Day, designed for technical university master's degree students. These had a unique opportunity to learn about the most recent trends and outlooks directly from the Company's experts and to hear presentations of technologies and applications used by the operator. The main topic of the annual event taking place in Bratislava on 10 November 2011 was innovations. Other topics included cloud computing, innovation in access networks and Hybrid PayTV. A new feature this year was poster presentations combined with a workshop in an interactive mode for small groups of students. Students could choose from eight topics, where experts answered their questions and provided detailed technology explanations. The topics included Mobile Internet Gateway, GPON, Backhauling- Mobile and Fix, IMS, Dual Carrier HSDPA 42 vs. Single Carrier HSDPA 42, and others.

In addition to 75 Slovak university students, the conference was also attended by eight students from the University of Leipzig, a partner with which Slovak Telekom cooperates on student and specialised lecturer exchanges. As in previous years, an important part of the conference was the meeting between representatives of the academic community, rectors, deans and teachers and the Slovak Telekom Group's managers.

Communication: Pathway to Success for Employees, Customers and Public

In 2011 the Slovak Telekom Group undertook many activities at all levels: in the business arena providing service to all customer groups and introducing new technologies, in the corporate sphere through many events and with topical themes, and in new business areas with ICT or sponsoring activities. The foundation is open communication by all companies to several target groups – their own employees, customers, and the public – and presentation of outcomes at a high level.

Slovak Telekom

External Communication

In the course of 2011, external communication paid great attention to several significant topics which later dominated publicity as a whole. 3G network expansion and introduction of the new HSPA+ technologies were dominant topics in the area of technologies, and preparing and opening the new data centre in Bratislava became a major theme in the ICT segment. An important subject of business was support for the largest offering of telephones at special prices, and introduction of many new items and the pre-paid Disney collection card (which thanks to the introduction of parental services in the second half of the year intersected with the CR sphere). Sponsoring activities, primarily the popular Magio beach in Bratislava and some musical events, were rich topics for communication. A total of over 3,700 articles were published about the Company in 2011.

Number one in 3G: introducing HSPA+ technology

The communication objective was to use the expected time advantage in the prepared introduction of state-of-the-art mobile data technologies to become the market leader in this direction. In selecting the key messages we concentrated on both speed itself and on the overall increase of network capacity and throughput for customers, and beginning of massive investment into 3G expansion throughout Slovakia.

The first step was introduction in March of the fastest mobile internet in Slovakia via HSPA+ technology, with a rate of up to 21 Mbps, at a press conference featuring an actual demonstration of the technology. The intention to significantly expand the 3G network in Slovakia, and the objective of nearly doubling 3G networkcoverage within two years of the end of 2010, were concurrently announced.

A unique test in July of HSPA+ technology, with a rate of up to 42 Mbps under "single-carrier" mode, was an important milestone; Slovak Telekom was the first operator in the world to carry out this test. The technological briefing for journalists in the presence of partners from Deutsche Telekom, Ericsson and Qualcomm aimed at emphasizing planned advancements in the network capacity area. We also managed to demonstrate our ability to come up with yet another technological innovation of global importance in Slovakia even after introducing FLASH-OFDM technology.

The 3G communication series culminated with the Slovak debut in October of HSPA+ with speed of up to 42 Mbps. Its commercial operation in selected towns and cities, and upload increase to 5.8 Mbps, were the main topic of a press conference which also introduced Christmas offers.

Thanks to the steps taken and good communication timing, we succeeded in presenting Slovak Telekom as the technology leader on the market, able to bring technological novelties into the real lives of its customers.

Communication on new data centre

Though Slovak Telekom has extensive experience in operating data centres, the public and the media perceived it as a company primarily providing services to residential customers through products like digital television, internet and voice services. The Company itself has been undergoing a change process to become an all-round ICT operator, and therefore the main communication challenge was for it to be so perceived from outside. The building and opening of a state-of-the-art data centre in Bratislava, on which we focused a major part of the communication activities, was the most significant step in this sense.

After the foundation stone was ceremonially laid with the participation of IBM, which built the structure, we informed the media of current project status on a regular basis through press releases and photos. The opening ceremony of the Telekom DataCentre in June was an excellent opportunity to show the new space not only to business partners and potential customers but also to journalists. A press conference was held directly on the data centre premises. It included a thorough guided tour and the chance to shoot photographs or video. This resulted in a number of mentions in the media over the next months and a gradual change in the perception of Slovak Telekom as one of the strongest players in Slovakia's ICT market.

The largest offering of telephones at special prices

Slovak Telekom, or more precisely the T-Mobile brand, was in the past usually linked to introduction rolling out of new phones to Slovakia's market either as the exclusive supplier or with attractive pricing. We decided to reinforce this message in line with a summer promotional campaign offering nearly a hundred telephones at special prices and more than 50 phones at the price of EUR 1. We strengthened our portfolio by combining the newest phones having advanced operational systems with a re-offering of our bestsellers at special prices. The sales results in the first weeks confirmed customers were interested in novelties but also in well-established

10 Ekonomika

Utorok 9. augusta 2011 SME

T-Mobile nechce licencie zadarmo

Šéf Telekomu verí, že spolitizovanie témy licencií nesúvisí s rozhodnutím nevyplatiť štátu dividendy

„Nikdy sme si nemysleli, že licencie dostaneme zadarmo. Sto miliónov eur za licencie však určite nie je v našom pláne.

telephone models which were not succeeded by newer models but whose owners preferred them over completely new ones. By continually introducing novelties in the second half-year (including exclusive models or attractive concepts like Sony Ericsson Xperia Play) we confirmed that customers can find dozens of subsidized phones of diverse models and styles under the T-Mobile or Telekom brand.

Musical events

The 4th annual T-Mobile Music City attracted as usual the attention of the public and the media, thanks in part to the new Music City Club Edition concept. For the second time we gave journalists access to domestic and international musicians backstage in Košice in June, and bring their fans and readers information directly from the source.

The international project of the T-Mobile brand, the well-established Electronic Beats festival, brought invited journalists a more progressive view of contemporary music in Bratislava's MMC club. It was one of the top events of the Slovak club scene, closely watched by the music media, including Rádio FM, in October.

Magio Beach

The theme that once more generated the greatest medial value was the now-traditional Magio Beach. 2011 was the 5th year the Company organized the Beach project at Tyršove nábrežie in Bratislava. TV Markíza, which shot some of its programmes on the beach during the summer, was one of the media partners. Journalists covering the world of movies had an opportunity to meet each other on the beach for the first time, because this year's programme included an open-air cinema, showing 24 Slovak and foreign movie hits.

The summer programme at Tyršove nábrežie culminated in the Magio Cup, a media beach volleyball tournament. Its 3rd year brought together famous faces from the world of show business, representatives of mass media, Beach partners and professional volleyball players. The general public could also enjoy sporting tournaments, dance moves by Brazilian dancers, live music and refreshing drinks.

We also celebrated the success of Magio television on Magio Beach at the beginning of July, when the number of its subscribers surpassed 150 thousand. We gave the 150 thousandth customer a branded LCD television in front of the media's cameras, and the beach visitors present were offered 150 drinks. Sväťo Malachovský and René Štúr, known from the television programme Oops and the Radošinské naivné divadlo (The Radošina Naive Theatre), provided good humour as masters of ceremony.

Corporate responsibility

The Company has long undertaken corporate responsibility activities, thus expressing its long-term voluntary commitment to do business on the principles of responsibility and ethics and support the community in which it operates. These are projects which often the stories of real people and therefore this area of business requires a different communication style.

The news about Telekom's corporate responsibility constitutes approximately 5% of the all press releases. Therefore the public still may not have a clear idea of what corporate responsibility is. We therefore decided to bring this world closer to the public in June through a one-week event on Magio Beach called Nesieme zodpovednosť (We take responsibility). The event's programme consisted of various areas of support which we dedicate ourselves to, offering exclusive content to several types of media. We opened the event with a press conference, in which Henrieta Mičkovicová and Alexander Bárta, the stars of last year's 7th sense project, opened a photographic exhibition capturing some unforgettable emotions from the implementation of the Company's corporate responsibility projects.

The new child internet and mobile protection mechanisms were the fundamental themes of corporate responsibility communication in 2011. In March, we brought a unique new item to the market, the first Disney collection pre-paid SIM cards for children, through a press conference held in a toy shop, underlining the special nature of the product.

The Disney SIM card was supplemented with five useful parent services in October, which launched the second round of communication. Our objective was to enhance knowledge of the services via PR articles explaining to parents, in an understandable manner, how the each service works. This communication used people known from the press conference as ambassadors of the services in lifestyle interviews describing the new services' advantages. The interviews ran in daily papers and various women's magazines and specialized weeklies, and appeared on two web portals alongside a product contest.

In the media we simultaneously promoted the Rodičovská kontrola (Parental control) service, which enables internet programme customers to block inappropriate web sites at different levels depending on the age of the children. Thanks to the alignment of the times of the Rodičovská kontrola communication and the Disney collection SIM card product launch, we succeeded in strengthening our position of a family-friendly operator in terms of child internet safety.

Rebranding

As part of supporting the introduction of the new Telekom brand we prepared a special communication for print media. It encompassed explanation of key positive facets of the change from the customers' viewpoint, and messages which had not been included in the marketing campaign. The executive director for marketing Dušan Švalek gave an interview to the weekly Trend, in which he analyzed the Telekom brand launch step-by-step, and customers' total perception of the brands.

Corporate publicity

The corporate communication arena, an integral part of media space, mainly dealt with numerous regulatory themes and legislative changes in the course of 2011. The extension of frequency licences and new act on electronic communications were the most common themes. The latter brought in a number of changes; the media were mainly interested in the shortening of the number portability period, and establishment of an obligatory 12 month subscription period.

Internal Communication

Internal communication faced several challenges in 2011. The gradual finalizing of integration processes smoothly gave way to the setting of transformation objectives, which again featured many changes. Timely and transparent communication of all important information was one of the main priorities. The ongoing corporate culture change required emphasis on higher employee motivation, fostering their loyalty, team co-operation, creation of space for communication, and management's getting closer to employees.

Employee events

Employee and management meetings are an important source of information. The Business Forum in March, mainly intended for managers, launched a series of another eleven meetings with employees throughout Slovakia. These aimed at presenting all significant economic indicators and corporate strategy and objectives, and motivating employees for the forthcoming period of changes. The main topic of it was the presentation of the new Alexander transformation programme, which has impact on all functional areas of the Company. It comprises economizing measures, rendering activities more effective, and higher motivation of the front lines in the interest of better sales of the services provided by the now-integrated operator. The two-day Top 70 Summit was a novelty among employee events; managers became more familiar with specific transformation steps.

For corporate culture formation, management and managers play a key role, and therefore the internal communication team started to organize, in co-operation with the Human resources unit, a new format of meetings called "A day with ...". A selected management member devotes one day to meetings and conversations with employees, who can choose a face-to-face dialogue, group discussion on leadership, or evening offline meeting. A series of informal events also included the opening of Magio Beach and a special day with the new chief financial officer which took place right on Magio Beach. The day was full of contests, and sporting and creative activities.

Employees' determination to help was manifested in the Naše mesto (Our city) CR project, under which teams selected from among a wide variety of community volunteer activities, such as cleaning of parks, painting of gates of nursery schools and so forth.

A film-themed Christmas Movie NAJ-T party was a high point for all employees. It was the Company's employees who were the celebrities that evening. The internal communication team prepared a packed programme and many activities for its colleagues providing them with an opportunity to have fun in a relaxed atmosphere after a difficult period.

Internal media

Direct mails and messages from executive directors, sharing information about important organizational changes, were a well-tried form of communication.

The T-time internal journal offered a versatile profile of all important Company milestones, creating an open space for self expression and presentation of our employees' opinions and experiences. Besides transformation and business support, themes regarding corporate responsibility, Program zdravia (Health Programme) support and other HR themes, and an educative campaign focused on safety, were ongoing topics.

All recent information was also available on the intranet, where more than 200 articles dealing with current events, with an average clickthrough rate of 2,300, were published last year. The new application "Zjednodušujeme s Alexandrom" (Simplifying with Alexander) was presented as part of the transformation programme in April 2011, aimed at identifying, based on employee suggestions, processes and areas that could be made more effective and streamlined. The application enables employees to express opinions on the individual suggestions by voting to like/dislike it. They thus became more important, themselves setting their priorities regarding the Company's work. The application recorded more than 180 suggestions over eight months. All were analysed on an ongoing basis and gradually resolved by the relevant units; 95% of the suggestions were dealt with by the year's end.

Videos, recording authentic statements and reactions of our employees and management, as well as capturing the atmosphere of all significant events over the course of last year, were an integral part of electronic communication. In the thirteen episodes of the series "Podarilo sa nám" (We did it), we gave employees space to share their successes with other employees. The incentive and the objective were to highlight the individual contribution of each employee and the significance of personal contributions in team co-operation and creation of our Company's success. Corporate culture change is an important part of the transformations made in the Company. The communication activities performed enable us to successfully contribute little by little to the changes in this area.

Internal campaigns

The "Úspech našej firmy máme na triku všetci" (We were all successful) campaign focused on everyday work life, and the employees themselves were its protagonists. This campaign was also awarded a bronze nail in the category PR creativity at Slovakia's 17th annual Slovak Golden nail competition.

Mutual appreciation, estimation and respect were the main motives of this year's campaign on the occasion of Corporate Principles Day. In the last week of September, all employees could participate in sending compliments in the spirit of Corporate principles. Along with printed cards, an interactive electronic card was introduced, whose enjoyable form inspired the sending of many messages. As a part of the Day, managers were asked to prepare with their employees a group activity which would benefit their team's cooperation, such as an outdoor group meeting and discussion on what the principles bring their everyday work lives.

The integration and introduction of a new and joint Telekom brand in October was supported by communication in all internal media. It included a campaign inspired by the motive of "NAJ" (TOP) marketing campaigns. All employees could create their own "NAJ" T-shirts. The employees added their own creative mottos through an internet application, such as NAJlepši futbalista (TOP football player), or NAJradšej mám svoj tím (my team is the TOP) and so forth. Executive management also appeared in "NAJ" T-shirts they created themselves, thus promoting employee products under the sub-motto "Toto ide na naše triko" (At our own expense). The campaign met with huge success among employees. It supported several corporate objectives related to introducing the new brand, presented the individual Christmas plans, and motivated employees to try out new products and services offered in order to serve later as the services' ambassadors on the market, and present the products to their families and friends.

Marketing Communication

The Company continued to fulfil the promise of the brand: "Zažime to spolu" (Life is for sharing) again in 2011, by coming up with new items, sponsoring popular TV shows, and providing solutions for voice services, fixed and mobile internet and digital television. For the first ten months, it was still communicating both the T-Mobile and T-Com brands, but the year-end Christmas campaign was associated with introducing the new Telekom brand. This is associated with the ambition to become the favourite operator, with the highest number of customers and the widest portfolio of products and services on Slovakia's market.

Advertising Campaigns

The analogue signal was definitely switched off in 2011. With this comes enhanced communication of TV services and functions under the Magio brand (including via satellite) without monthly fees or mandatory subscription period. As for internet, Slovak Telekom is positioned as a full provider of web services, offering mobile internet, home internet and internet in the mobile.

Spring campaign: betting, and Disney collection SIM card
The main spring campaign was about betting, overcoming the myths and stereotypes about telecommunications services. Slovak Telekom's customers can have calls, internet and television at one place and with coverage all over Slovakia. With the Podľa seba (My Choice) flat-rate plan, customers can choose how much they want to pay. With the super-fast Magio internet, available at a special price, they can download whatever they want and also get a 50% discount on notebooks with special plans. Magio Sat offers customers the most popular Slovak and Czech programmes free of charge perpetually and, moreover, with no subscription period. Up to 47% of people spontaneously remembered at least one of the advertisements, and supported recognition was at 93% (Source: GfK, ATS 03/2011).

In March, the Company launched a new item on the market: a special Disney SIM card for children with two motifs: Hannah Montana for girls and Cars for boys. Together with advantageous calling prices, the SIM card was packaged with tattoos, stickers, and a game. In autumn, the offering was expanded to include a stylish mobile with a gift from the Disney collection. With new functions, the parents have the calls and safety of their children under control.

Under the T-Mobile brand, the Company became a general partner of the most popular music show **Česko Slovenská SuperStar 2,** broadcast by TV Markíza for the fourth time. The popular "mobile figures" were replaced by image communication about mobile internet, showing the immerse possibilities it provides. The Company became the first company in history to successfully commit 12 finalists to its communication; it created two very successful sponsorship messages with them, and prepared an image campaign about the tripling of 3G network speed. The spots received more than half a million clicks on YouTube while the show was being broadcast and the communication was very strong and well registered; the effective penetration in the target group of 15 to 25 year-olds achieved up to 60%. The campaign was shortlisted for an EFFIE 2011 and inspired the Czech T-Mobile to adapt the campaign.

Summer and autumn:
the largest special offer of telephones and notebooks at one Euro
The Company's summer communication started by providing customers the biggest offer of mobile phones starting at one Euro. With T-Mobile's fastest mobile internet, the customer can surf wherever they want with no limit, without having to pay additionally for the data. The offer was rounded

out with the favourite Magio internet equipped with an innovative function: protecting children from age-inappropriate content. The rate of campaign recognition achieved excellent values; the spontaneous recognition rate achieved 54%, and supported recognition up to 90% (Source: GfK, ATS 06/2011). With 200 thousand clicks, the advertisement ranked among the most watched Company advertisements on YouTube (Zažime to spolu (Life is for Sharing)), and evoked positive responses over social networks and among common people.

The Company’s offer of notebooks for all families for one Euro brought in the autumn. Everybody can afford notebooks without an instalment plan now, with selected Magio internet and mobile internet plans. For the first time Slovak Telekom became a sponsor of the **Česko Slovensko má talent 2** contest broadcast by TV JOJ, since it satisfies the background values for Magio television as a service for the whole family. The show was an excellent platform for the provision of interactive fun for Company customers, mainly through Magio digital television, which also has something like “talent” thanks to its unique functions. Communication succeeded in supporting the premium-rate positioning of the “most talented” Magio television, and aptly presenting selected functions (a wide range of programmes, live TV pause and rewind, and digital quality of picture and sound) that are the key decision factors for buying the service. Thanks in part to sponsoring, the show became the most-watched programme during this period, confirming the success it met with in nearly forty countries around the world.

For business customers, the Company brought unlimited calls to their own fixed and mobile networks, new mobiles starting at 1 Euro, and a half-year of free unlimited mobile internet in 2011. The **“Podeľte sa o úspech!”** (Share your success!) contest intended for small businesspeople was organised for the second time, having met with success the year before. The contestants could again share their major in their business successes, winning fan votes on Facebook. This year, they were additionally to make promises to their customers of what they would fulfil if they won the contest. Winners could get free billboard and banner promotion for their businesses. More than 20 thousand Facebook users voted in the contest, voting for 271 of the projects registered. The web site www.podeltesaonajuspech.sk was visited by nearly 90 thousand unique users.

Christmas campaign and new brand introduction

Slovak Telekom accomplished its integration process, launching the Telekom brand on the market in mid-October. The brand supersedes and simultaneously unifies the original T-Com and T-Mobile brands under a single brand, from here on representing all products and services of the fixed and mobile networks. Its introduction was based on the Deutsche Telekom Group’s international strategy in the corporate identity field, and brings benefits to customers. This is the Company’s only logo since October. Customers can resolve their needs on the common free customer line 0800 123 456, or the well-arranged interactive web portal www.telekom.sk, featuring a new e-shop and common administration of existing fixed and mobile network services. A joint sales network of Telekom Centres, where customers can find the market’s widest offering of telecommunications services and high-quality customer service, has been common knowledge for more than three years. The brand was presented together with the Christmas campaign. It achieved excellent results after several days: more than 50% correct association with the new Telekom brand and understanding of the brand change. Telekom brand awareness surveyed achieved up to 80% after approximately 2 months.

The Company asked the popular band Horkýže Slíže (which in several ways promotes values like those of Telekom: it is social, authentic, sincere, natural, unreserved, inspiring, open-minded, vital and entertaining) to co-operate on its Christmas campaign. Christmas started with the introduction of a Magio TV offer. An actual concert was organised at a housing estate, among blocks of flats, in Topoľčany for the TV commercial. The spot presented the new Magio TV function, which is time shifting, or viewing a broadcast that was recorded earlier. The commercial ranked among the favourites on the Company’s official YouTube channel: Zažime to spolu (Life is for sharing). Further spots continued to communicate Magio as the safest internet, and the most generous Podľa seba flat-rate plans providing cashbacks of up to EUR 200 and unlimited calls, SMS, and MMS to their nearest and dearest. The campaign was supported with contests and activities on Telekom’s new fan web site of the Facebook social network, joined by more than 30,000 fans in under three months. The Christmas commercials’ spontaneous recognition rate was 53%, and the supported rate was 86% (Source: GfK, ATS 12/2011). The campaign ranked first in TOP 10 spontaneous knowledge of commercials in the target group of young people aged 15 to 25 years in November and December (Source: GfK, Young People Ad Monitor for the Stratégie (Strategies) monthly).

Full array of awards in 2011

Slovak Telekom participated in various Slovak and international competitions in 2011, presenting several successful campaigns launched recently. It won many awards or shortlistings.

Effie Slovakia 2011
13th annual national marketing communication efficiency competition.

- **Bronze Effie:**
  Campaign: "Pappardelle", the Podnikateľ (Businessman) plan
- **Shortlists:**
  Autumn campaign 2010: "Volanie na ulicu" (Street calls) family line
  Internet project for entrepreneurs: "Podeľte sa o úspech!" (Share your success!)
  Sponsorship project "S mobilným internetom byť SuperStar sa dá!" (You can be a SuperStar with mobile internet)

Golden nail 2011
17th annual competition of Slovakia's most important and prestigious advertising creativity.

Category C – TV and movie commercials
- **Silver nail 2011:**
  Dede a MS vo futbale (Dede and football's World Cup) – TV series, Istropolitana Ogilvy

Category D – Radio
- **Bronze nail 2011:**
  Ako sa volá? (What's his/her name?) – radio series, Istropolitana Ogilvy

Category E – Interactive & online
- **Bronze nail 2011:**
  Podeľte sa o úspech! (Share your success!) – online, Istropolitana Ogilvy
  Keď si šťastný (When you are happy) – Rytmus, MUW Saatchi & Saatchi

- **Silver nail 2011:**
  Keď si šťastný (When you are happy) – viral, MUW Saatchi & Saatchi

Category G - MEDIA
- **Bronze nail 2011:**
  Dede v kine (Dede at the cinema), Istropolitana Ogilvy
- **Silver nail 2011:**
  Premietači (Cinema projection men) – movie spot, MUW Saatchi & Saatchi

Category H – CREATIVITY IN PR
- **Bronze nail 2011:**
  Máme to na triku (We were all successful), MUW Saatchi & Saatchi

Category J – CAMPAIGN
- **Silver nail 2011:**
  Dede a MS vo futbale (Dede and football's World Cup) – campaign, Istropolitana Ogilvy

Rainbow ball 2011:
12th annual international festival of commercials held in the Czech Republic.

Category – "Rainbow smile"
- **Silver:**
  Dede campaign, Istropolitana Ogilvy

Category – Video
- **Bronze:**
  Dede series of football TV spots, Istropolitana Ogilvy

Category – Digital
- **Bronze:**
  Podeľte sa o úspech! (Share your success!), Istropolitana Ogilvy

Festival of Media Awards Montreux 2011
5th annual world-wide competition of creativity and innovation of sponsors and their media agencies .

Appraisal: Highly Commended
Category: Best earned media
Campaign: Podeľte sa o úspech! (Share your success!)

FLE media awards 2011
5th annual competition of media agencies established in the territory of the Slovak and Czech Republics, awarding the best media campaigns and creative use of media.

Innovative sponsor: Slovak Telekom
GRAND PRIX: T-Mobile – Dede v kine (Dede at the cinema) (agency: Mediaedge:cia Slovak Republic)
Best use of movie commercial: T-Mobile – Dede v kine (Dede at the cinema) (agency: Mediaedge:cia Slovak Republic)
Best small campaign: T-Com & T-Mobile – Podeľte sa o úspech! (Share your success!) (agency: Mediaedge:cia Slovak Republic)

Telekom Media Awards 2011
International in-house competition of the Deutsche Telekom Group.

Best use of Social Media: Podeľte sa o úspech! (Share your success!)
GRAND PRIX: Podeľte sa o úspech! (Share your success!)

Sponsoring Activities

Magio Beach

The 5th year of a unique Bratislava project called Magio Beach was carried out in 2011. The beach was open longer than ever, from 1 June until 11 September 2011.

More than 126,000 people visited the beach this year. A new design for the central terrace and main bar surprised visitors, and the programme was the most versatile ever. The beach provided the atmosphere of a different country each week: Cuba, Turkey, Brazil, Scandinavia, and France. For the first time ever, a Magio summer cinema project was presented, thanks to which visitors watched domestic and international films free of charge. We

offered continuous access to information to all beach visitors through free Wi-Fi connection via Magio internet. The beach created ideal conditions for sportsmen: two courts for beach volleyball, areas for beach football and badminton, table tennis, table football, darts and pétanque. Visitors looking for relaxation used the summer reading zone, more than 400 sunbeds, and 680 seats in two bar rooms, and families with children enjoyed several children's attractions and slides with pools. Magio Beach again this year became a sought-after place for active relaxation and pleasant encounters on the Danube shore

T-Music City

The music sponsoring project T-Music City continued its the 4th year in 2011. Following the tradition created and the communication promise given ("The biggest party in your city") young people all over Slovakia enjoyed five stylish music events. 2011 brought two formats for the event. The people in Košice witnessed a grand T-Music City event with several stages, open-air performances in several music styles, and music through the entire city.

Another four cities enjoyed a new even format, called T-Music City Club Edition. This produced more intimate events, held in Slovakia's best music clubs. The new format received an extraordinarily positive response from the target group.
An equally important part of the T-Music City project from the very beginning has been online activity. The Company continued the tradition of preparing original contests, putting out regular news from the world of music, and providing space for user-generated content. On-line activities were based on two platforms, the project's own web site and Facebook.

T-Com as platinum partner of Slovak football

The Company continued as partner of the Slovak Football Association and Slovakia's national football team under the T-Com brand until July 2011. Slovak football fans could experience the greatest sports moments of the national team in the company of the T-Com and Magio brands.

The support of Slovak football as a platinum partner of the SFA and the Slovak national football team is in line with the sponsoring strategy and corporate responsibility philosophy. Slovak Telekom intends to support community life, and football is a significant part of it.

Zoznam

External Communication

The task of the Zoznam.sk internet portal's external communication was to foster confidence and partnerships, with an aim of stimulating discussion on innovations in the Company and enhancing the response and interest of journalists. Along with standard communication channels, Zoznam started to use social networks, thus addressing other opinion online community leaders. New products and cooperation enabled it to enter markets in which it had not been represented, such as discounts (BOOMER.sk), the segment for internet users over 40 (PlniElanu.sk), and innovations through the additional catalogue platform Dopytovač.sk; the strategy of unifying the product's design line continued. Thanks to successfully implemented innovations and novelties, 2011 was a year of 6% increase and 57% market share retention for Zoznam.sk, in a continuously growing market. Zoznam grew not only in terms of products but also flourished as a media operator. Compared with the year before, its products were visited by an additional 111 thousand new customers (Source: AIMmonitor – IAB Slovakia – Media-research & Gemius, October 2011).

Marketing communication and media partnerships

The well-known summer beauty contest Dievča leta (Girl of Summer) took place in the Topky.sk news portal in the summer. Thanks to a special Facebook application created to support the contest on the social network, Topky's popularity on Facebook increased ten times. The original fan base of 6 thousand increased to 60 thousand. Topky.sk became one of the most popular media on Facebook in two months.

2011 was a successful year for Zoznam.sk in terms of successful sponsorships and cooperation on attractive creative concepts. Aupark visitors associate the Zoznam.sk brand with a free Wifi network. Zoznam.sk communicated the Aupark internet connection through the creative project "Wifi to vo vzduchu" (Wifi in the air). In cooperation with Microsoft, Zoznam.sk provided its users an opportunity to download Internet Explorer 9, a special version of the browser. Zoznam.sk provides three special versions of the browser, simplifying access to the popular sites in Zoznam's product portfolio simpler. A radio campaign for the Kariéra (Career) job portal accompanied with the "Neodpáľ sa na pohovore" (Tips for job interview success) creative project also originated at year's end. Radio spots warned listeners in an amusing way of the most common errors which applicants commit in job interviews.

Thanks to cooperation with Express radio, the Kariéra.sk job portal directly became part of the morning show, with the moderators themselves looking for jobs for people under the Kariéra.sk brand. Zoznam.sk also started cooperation with the web sites of major television stations in Slovakia in 2011. The portals of the JOJ and TA3 television stations link to articles at the Topky.sk news portal and the job offerings on the Kariéra.sk portal.

Sponsorships

Zoznam.sk also continued supporting major marketing conferences in 2011, for example Mobilerulezz, a professional conference on mobile marketing, and Facebookrulezz, the first and only conference in Slovakia dealing with Facebook marketing and communication.

Additionally, Zoznam.sk became a partner of Zlatý klinec 2011 (Golden nail), the competition for the most creative advertising in Slovakia. On this occasion, it launched its www.najreklamy.sk project, providing readers of the Topky.sk portal with an overview of the best from the world of advertisement.

In 2011, Zoznam decided to help new Slovak internet companies and new start-ups projects to become visible. Based on mutual agreement, it offered start-ups and investors marketing, media and professional help in creating and raising awareness of new projects.

The Zoznam.sk internet portal supported as usual many interesting debuts of movies, stage plays, concerts and other events, thus associating with the most important and anticipated cultural events in Slovakia. Zoznam.sk again became a sponsor of Pohoda, Slovakia's biggest music festival, and other festivals (Topfest and Lodenica), and the concerts of Roxette, the Scorpions, Erasure, Rammstein and Sade, and also supported concerts by Richard Müller, Gladiator, No Name and Márie Rottrová.
Zoznam supported several movie releases, such as Varieté (Variety show), Skús ma rozosmiať(Try to make me laugh), Tvoj snúbenec môj milenec (Your fiancé, my lover), Odcházení (Leaving), Jeden deň (One Day), Traja mušketieri (Three musketeers), Perfect days, Nevinnost (Innocence), and animated cartoons like Rio, Kung Fu Panda 2, Šmolkovia (The Smurfs), Arthur zachráni Vianoce (Arthur saved Christmas), Kocúr v čižmách (Puss in boots) and others in 2011.

It also supported stage plays. Examples include: Valčík náhody (The waltz of coincidence), Zem (The Earth), Kukura, November, Deti ráje (Children of Eden), Rómeo a Júlia (Romeo and Juliet), Vianočná koleda (Christmas Carol), Shakespearovské slávnosti (the Shakespeare Festival), Leto hereckých osobností (Summer of acting personalities), and Festival českého divadla (the Czech Theatre Festival).

Cooperation with the National Tennis Centre enabled Zoznam.sk to give media support to the Davis Cup and Fed Cup tennis competitions.

PosAm

PosAm's communication activities mainly focused on organizing events for the professional community. It was also a sponsor of all the important conferences of its industry.

TechDays East and West 2011 events, where the Company organised a technology seminar on new developments in IT virtualization and in providing applications, was one of the most important events of the year. Customers were acquainted with current trends and practical case studies. TechDays West was closely associated with the IT economy; PosAm presented realistic tools and possibilities for reducing IT costs while increasing service quality.

PosAm, together with IBM Slovensko, organized another annual instalment of Lotushow in 2011. Customers were presented Lotus novelty items, a comparison of the Lotus portfolio with those of competitors, and interesting tips and tricks for using Lotus Notes.

Corporate Responsibility

The Slovak Telekom Group believes that corporate responsibility entrepreneurship has gone beyond the scope of occasional financial help to people in hardship; it has intensified to the level of a Company commitment to do business and behave responsibly and ethically towards all parties. Corporate responsibility principles are an integral part of the business philosophy and strategy of Slovak Telekom Group companies, based in turn on the corporate responsibility principles of the parent company Deutsche Telekom, and are approved by executive management every year. They reflect the entire Group's Code of Conduct of employees and define behaviour towards the community, employees, customers, suppliers, partners, and the environment.

Slovak Telekom

It is always desirable for the Company to give its customers, employees and partners more than they expect. Imagine receiving, along with mobile internet, free service to protect your children from surfing to inappropriate content. In the evening, your social network lets you know that the same company is organizing a football match of orphanage children and celebrities on the city beach the next day. Several months later, you read in your favourite weekly that a Song for the Deaf has been composed, through which your mobile internet provider hopes to bring closer worlds of the hearing and the hearing-impaired. You also watch the group's video clip and decide you want to learn sign language like the lead singer. On the internet, you find that the company will be organising a free week-long sign language course for the public. You may be impressed enough by the company to apply for one of the vacant positions. You succeed, and get a job with the company. Your boss sends you to several interesting educational courses. You pick your own employee product at an advantageous price. You participate in a Week of Health. Thanks to an internal campaign, you contribute to the Dobrý anjel (Good Angel) system, and next year you may want to join the volunteer tree planting activity in the High Tatras.

Even the communication of social responsibility itself shows Slovak Telekom employees that there can be an interesting story behind every single activity. The story above is a shortened version of Slovak Telekom's corporate responsibility story in 2011. The Company directed its support primarily to spheres in which it could help comprehensively, particularly by providing know-how, volunteering, or services rendered. Assistance was provided through toll-free help lines.

The Company worked on child internet protection mechanisms, and in August launched the toll-free service Rodičovská kontrola (Parental Control) on both mobile and fixed internet connection, letting parents block inappropriate sites on the internet by child age without installing any software. Considering the decreasing age of children using their first cell phones, in March Slovak Telekom offered mobile services customers SIM cards with Disney collection designated for children; five useful parent services were added in October, giving a better overview of calls made by children and ensuring their safety.

Slovak Telekom was a partner of the OVCE.sk cartoons, dealing with safe usage of the internet, which are not only on the internet but also broadcast on TV and public transportation. In 2011 nine new episodes were made in cooperation with the not-for-profit organisation eSlovensko. Also new was the language offering, with episodes now available in German, Slovenian, Polish and Estonian.

The Company was simultaneously striving to create a motivating environment for employees and reliable and affordable products and services for customers, to apply a transparent approach to its suppliers and business partners and, last but not least, reduce the ecological risks of its business. As a common standard, the Company has started to offer electronic invoices to all new customers, and customers prolonging their services or activating or changing some of the services. This change aimed at providing the advantages of electronic invoices to the largest possible group of customers, thus contributing to environmental protection.

Thanks to the good financial results the Company achieves each year, Slovak Telekom was also active in the philanthropic arena. In 2011, the Telekom Endowment Fund with the Intenda Foundation supported 44 projects in the areas of contemporary art and support of disadvantaged groups, and (through a new grant cycle) literacy development using advanced technologies, with a total of EUR 160,000.

The Company presented the world of corporate responsibility at a unique week-long event called Nesieme zodpovednosť (We take responsibility) on the Magio beach. The purpose was to express its long-term commitment to doing business based on the principles of ethics and responsibility. The event was enhanced by accompanying activities which showed visitors the world of the disadvantaged, taught them healthy exercise and revealed the secrets of sign language. Henrieta Mičkovicová and Alexander Bárta opened the event, which included a photographic exhibition capturing unforgettable moments from Slovak Telekom's corporate responsibility projects, which influenced the lives of many people. The exhibition was available to beach visitors all summer.

In support of the hearing-impaired community, Slovak Telekom, in co-operation with the Slovak boy band Desmod, brought out the song Zvukoprázdno (Soundlessness) about the world of the deaf, bringing it closer to the public and to opening the theme of the soundless world in which they live. These people can mainly "listen" to the music through rhythm, bass and artistic interpreting of the text, which is why Slovak Telekom opted for such cooperation. The song's accompanying video was interpreted in sign language, and a deaf actor played its main character.

In March, Slovak Telekom expanded another programme for the hearing-impaired. The thirty hearing-impaired entrepreneurs from the grant programme's previous three years were joined by another ten people who suffer from hearing impairments and have strong drive to do business. Jozef Markovič, the only deaf paraglider in Slovakia, was one of the successful applicants. Telekom presented a short video about his life and the business activities of other entrepreneurs with hearing impairments at: na www.nepocujucipodnikatelia.sk.

The Company trained another sixty employees of Telekom Centres in basic sign language. The hearing-impaired can find them in more than fifty Telekom Centres throughout Slovakia.

As for corporate volunteering, the employees engaged themselves in the programme of collecting used clothing, medical material, and children's books and toys, in the Hlavy pomáhajú (Engage your head) programme, in which they helped various organizations with their knowledge and experience. They also participated in the events Naše mesto (Our city) and Dni dobrovoľníctva (Volunteering days), during which they donated blood together with other companies of the Corporate Donors Club.

Zoznam.sk

Zoznam knows the problems and needs of the third sector well, and therefore it has long supported corporate responsibility projects, giving priority to long-term, development-oriented and innovative donor partnerships. By providing media space – at no cost – it enables not-for-profit organisations to publicize philanthropic activities.

In 2011, Zoznam supported the following not-for-profit organisations in this way: Úsmev ako dar (Smile as a gift), Červený kríž (Red Cross), Človek v ohrození (People in Peril) Association, Proti Prúdu (Against the Stream), Klub detskej nádeje (Children's Hope Club), Liga proti rakovine (League Against Cancer), Detský hospic Plamienok (Plamienok Children's Hospice), Želaj si (Make A Wish) civic association, and others.

PosAm

In 2011, PosAm, in co-operation with AK Spartak Dubnica nad Váhom and the Ministry of Education of the Slovak Republic, organised the 12th annual Slovak-wide talent-search contest for youngsters, "Hľadáme nového Jozefa Plachého" (We are looking for a new Jozef Plachý). The objective of the contest is to look for elementary and high school students talented in sports. It also provided financial support to Duslo Šaľa sports club.

The Company also provided financial contributions to the following: Proficio, an athletic club of people with impairments; Detské centrum Ružomberok (Children's Centre in Ružomberok) ; Domka; CHRISTIANA; Juvamen; Lúčka; Nadácia UNIVERZITY P. J. Šafárika (Foundation of Pavol Jozef Šafárik UNIVERSITY); Plamienok; SAMARITÁN; Slovenské hemofilické združenie (Slovak haemophilia society); Združenie pri detskom domove Piešťany (Foster Home Association in Piešťany); and Združenie Lepší svet pre znevýhodnených (Better World for the Disadvantaged Association).
The Company's employees donated blood three times during the year. The PosAm team became involved in the voluntary initiative called Naše mesto (Our City) organised by Pontis Foundation, cleaning the Soví les protected area. We supported Misia 01 (Mission 01) charity event under the Dobrá krajina (Good country) programme. The Company's employees donated proceeds from a traditional Christmas charity bazaar to a family from Svidník whose son, now 9 years old, has polio.

IV

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 2011

Contents

Consolidated income statement

for the year ended 31 December

thousands of EUR	Notes	2011	2010
Fixed network and broadband revenue		379,572	398,102
Mobile communication revenue		462,179	492,542
Other		55,604	43,619
Total revenue	5	**897,355**	**934,263**
Staff costs	6	(145,963)	(153,512)
Material and equipment		(84,308)	(84,761)
Depreciation, amortization and impairment losses	13,14	(237,909)	(244,698)
Interconnection and other fees to operators		(107,888)	(110,402)
Other operating income	8	14,213	15,737
Other operating costs	7	(198,262)	(208,264)
Operating profit		**137,238**	**148,363**
Financial income	9	6,826	4,540
Financial expense	10	(2,523)	(3,135)
Profit before tax		**141,541**	**149,768**
Taxation	11	(29,643)	(28,909)
Profit for the year		**111,898**	**120,859**

The consolidated financial statements on pages 59 to 94 were authorised for issue on behalf of the Board of Directors of the Group on 15 March 2012 by:

Ing. Miroslav Majoroš
Chairman of the Board of Directors
and Chief Executive Officer

Dr. Robert Hauber
Member of the Board of Directors
and Chief Financial Officer

Person responsible for accounting:

Ing. Mária Rokusová
Senior Manager of Shared Service Center

Preparer of the financial statements:

Ing. Vladimíra Richterová
Manager of Reporting and Accounting
Policies

Consolidated statement of comprehensive income

for the year ended 31 December

thousands of EUR	Notes	2011	2010
Profit for the year		**111,898**	**120,859**
Other comprehensive income			
Actuarial gains / (losses) on defined benefit plans	26	3,299	(616)
Deferred tax	11	(627)	117
Other comprehensive income for the year, net of tax		**2,672**	**(499)**
Total comprehensive income for the year, net of tax		**114,570**	**120,360**

Consolidated statement of financial position

as at 31 December

thousands of EUR	Notes	2011	2010
ASSETS			
Non-current assets			
Property and equipment	13	1,004,157	1,072,925
Intangible assets	14	404,437	402,403
Held-to-maturity investments	30	-	39,266
Deferred tax	11	66	79
Trade and other receivables	18	4,509	-
Prepaid expenses and other assets	20	18,219	22,576
		1,431,388	**1,537,249**
Current assets			
Inventories	17	11,252	13,733
Trade and other receivables	18	111,691	117,384
Prepaid expenses and other assets	20	7,097	16,483
Held-to-maturity investments	30	82,724	43,079
Current income tax receivables		254	3,584
Loans to Deutsche Telekom group	21	190,000	85,000
Term deposit over 3 months		-	60,000
Cash and cash equivalents	22	178,633	169,828
		581,651	**509,091**
Assets held for sale	12	-	1,134
		581,651	**510,225**
TOTAL ASSETS		**2,013,039**	**2,047,474**
EQUITY AND LIABILITIES			
Shareholders' equity			
Issued capital	23	864,113	864,113
Share premium	23	386,139	386,139
Statutory reserve fund		159,240	130,629
Actuarial gains / (losses) on defined benefit plans		2,380	(292)
Retained earnings and profit for the year		229,336	285,524
		1,641,208	**1,666,113**
Non-current liabilities			
Provisions	26	9,991	11,682
Deferred tax	11	139,296	150,934
Other payables and deferred income	24	17,956	21,955
		167,243	**184,571**
Current liabilities			
Trade and other payables and deferred income	24	182,985	186,326
Provisions	26	5,611	10,133
Current income tax liabilities		15,992	331
		204,588	**196,790**
Total liabilities		**371,831**	**381,361**
TOTAL EQUITY AND LIABILITIES		**2,013,039**	**2,047,474**

Consolidated statement of changes in equity

for the year ended 31 December

thousands of EUR	Notes	Issued capital	Share premium	Statutory reserve fund	Actuarial (losses)/gains on defined benefit plans	Retained earnings	Other reserves	Total equity
Year ended 31 December 2010								
As at 1 January 2010		864,113	386,139	91,071	207	240,066	97,090	1,678,686
Profit for the year		-	-	-	-	120,859	-	120,859
Other comprehensive income		-	-	-	(499)	-	-	(499)
Total comprehensive income		**-**	**-**	**-**	**(499)**	**120,859**	**-**	**120,360**
Allocation to funds	23	-	-	39,558	-	(39,558)	-	-
Dividends	23	-	-	-	-	(132,933)	-	(132,933)
Release of revaluation reserve		-	-	-	-	97,090	(97,090)	-
At 31 December 2010		**864,113**	**386,139**	**130,629**	**(292)**	**285,524**	**-**	**1,666,113**
Year ended 31 December 2011								
As at 1 January 2011		864,113	386,139	130,629	(292)	285,524	-	1,666,113
Profit for the year		-	-	-	-	111,898	-	111,898
Other comprehensive income		-	-	-	2,672	-	-	2,672
Total comprehensive income		**-**	**-**	**-**	**2,672**	**111,898**	**-**	**114,570**
Allocation to funds	23	-	-	28,611	-	(28,611)	-	-
Other changes in equity		-	-	-	-	(9,475)	-	(9,475)
Dividends	23	-	-	-	-	(130,000)	-	(130,000)
At 31 December 2011		**864,113**	**386,139**	**159,240**	**2,380**	**229,336**	**-**	**1,641,208**

Consolidated statement of cash flows

for the year ended 31 December

thousands of EUR	Notes	2011	2010
Profit for the year		**111,898**	**120,859**
Adjustments for:			
Depreciation, amortization and impairment losses	13,14	237,909	244,698
Interest income, net		(6,269)	(2,200)
Income tax expense	11	29,643	28,909
Gain on disposal of property and equipment	8	(1,022)	(349)
Other non-cash items		(3,176)	(1,196)
Movements in provisions		(3,468)	3,001
Changes in working capital			
Change in trade and other receivables		8,041	3,429
Change in inventories		4,392	(2,180)
Change in trade and other payables		(1,117)	144
Cash flows from operations		**376,831**	**395,115**
Income taxes paid		(20,681)	(47,165)
Net cash flows from operating activities		**356,150**	**347,950**
Investing activities			
Purchase of intangible assets, property and equipment		(178,081)	(144,820)
Proceeds from disposal of intangible assets, property and equipment		1,884	1,451
Acquisition of interest in subsidiary	4.5	-	(8,448)
Acquisition of held-to-maturity investments		(39,273)	(105,286)
Proceeds from disposal of held-to-maturity investments		39,559	56,211
Disbursement of intragroup loan		(170,000)	(110,000)
Repayment of borrowings		65,059	105,045
Termination / (acquisition) of short-term bank deposit		60,000	(60,000)
Interest received		4,645	2,623
Net cash used in investing activities		**(216,207)**	**(263,224)**
Financing activities			
Dividends paid	23	(130,980)	(132,933)
Repayment of financial liabilities		(134)	(133)
Other charges paid		(24)	(57)
Net cash used in financing activities		**(131,138)**	**(133,123)**
Net increase / (decrease) in cash and cash equivalents		8,805	(48,397)
Cash and cash equivalents at 1 January	22	169,828	218,225
Cash and cash equivalents at 31 December	22	**178,633**	**169,828**

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 "the Group" or "Slovak Telekom") and its subsidiaries Zoznam, s. r. o. ("Zoznam"), Zoznam Mobile, s. r. o. ("Zoznam Mobile"), PosAm spol. s r. o. ("PosAm") and Telekom Sec, s. r. o. (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 Karadžičova 10, 825 13 Bratislava. The business registration number (IČO) of the Company is 35 763 469 and the tax identification number (DIČ) is 202 027 3893. On 4 August 2000, Deutsche Telekom AG ("Deutsche Telekom" or "DT AG") gained control of the Company through the acquisition of 51% of the shares of Slovak Telekom. The transaction involved the purchase of existing shares from the National Property Fund of the Slovak Republic and the issue of new shares. The Slovak Republic retains 34% of the shares of the Company through the Ministry of the Economy of the Slovak Republic and the National Property Fund of the Slovak Republic retains 15% of the shares of the Company.

In December 2009 the Board of Directors of the Company approved the concept of the integration of Slovak Telekom, a. s. with its 100% subsidiary T-Mobile Slovensko, a. s. ("T-Mobile") in line with the structural and organizational changes within the Deutsche Telekom Group. On 27 April 2010 the integration of the companies was approved by the General Meeting of the Company. As a result of this decision, T-Mobile was wound up without liquidation by means of an up-stream merger and all its assets, rights and obligations, including labour rights and duties, were transferred to Slovak Telekom as the legal successor as of 1 July 2010. Since October 2011 the Company operates on the market under one common brand name Telekom instead of two brand names T-Com and T-Mobile.

On 29 January 2010 the Company acquired 51% of the share capital of PosAm.

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

The Company is a leading supplier of fixed-line and mobile telecommunications services in the Slovak Republic and owns and operates significant telecommunications facilities therein. The Company provides national and international telephony services, broadband internet services, IPTV (Magio TV), satellite TV (Magio SAT), and a wide range of other telecommunications services including data networks, value added services and leased lines. It also provides residential and business customers with products ranging from standard telephones to computer communications networks. The Company provides mobile telephony services in the 900 MHz and 1800 MHz frequency bands under the Global System for Mobile Communications standard ("GSM") and in the 2100 MHz frequency band under the Universal Mobile Telecommunications System standard ("UMTS"), hereinafter referred to as "mobile services". The Company uses the 450 MHz frequency band to provide wireless broadband internet access under the Flash-OFDM standard and provides Managed Data Network Services. The Company also launched Fixed Wireless Access (FWA), utilizing the 26 GHz/28 GHz frequency bands.

The general license granted by the Telecommunications Office of the Slovak Republic for the provision of mobile services under the 900 MHz, 1800 MHz and 450 MHz frequency bands is valid up to 31 August 2021. The UMTS license is valid up to 31 August 2026. The 26 GHz/28 GHz frequency licenses were granted by the Telecommunications Office of the Slovak Republic and are valid up to December 2017.

Zoznam and Zoznam Mobile operate the internet portal www.zoznam.sk and www.topky.sk and develop mobile entertainment content and software for mobile phones, and provide information, advertising and promotional services.

PosAm directs its business activities towards providing IT services, applications, infrastructure solutions and consulting to corporate customers.

Members of the Statutory Boards as at 31 December 2011

Board of Directors

Chair:	Ing. Miroslav Majoroš
Vice-chair:	Ing. Martin Mác
Member:	Dr. Robert Hauber
Member:	Albert Pott
Member:	Dr. Ralph Rentschler
Member:	Ing. Miloš Šujanský M.B.A.
Member:	Ing. Róbert Sándor

Supervisory Board

Chair:	Dr. Hans-Peter Schultz
Vice-chair:	Ing. Katarína Lešková
Member:	Ing. Július Maličký
Member:	Milan Brlej
Member:	Ing. Ján Vozár
Member:	Ing. Ján Hláčik
Member:	Ing. Miroslav Galamboš
Member:	Cornelia Elisabeth Sonntag
Member:	Tanja Wehrhahn

In 2011 a number of changes were entered in the Commercial Register: Mr. Szabolcs Gáborjáni-Szabó left the Board of Directors in April 2011 and was replaced by Mr. Robert Hauber. In addition, the Chair Mr. Andreas Hesse left the Supervisory Board in November 2011 and was replaced by Mr. Hans-Peter Schultz, who was a member of Supervisory Board until the replacement. The member position of Mr. Hans-Peter Schultz was replaced by Ms. Tanja Wehrhahn.

Deutsche Telekom AG, with its registered office at Friedrich Ebert Allee 140, Bonn, Germany, is the parent of the group of which the Company is a member and for which the group financial statements are drawn up. The 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 consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except where disclosed otherwise.

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

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

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 as adopted by the European Union ("IFRS"). The consolidated financial statements are available at the Company's registered office or at the Register Court administering the Commercial Register of District Court Bratislava I, 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 in which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group 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 given up, shares issued or liabilities undertaken at the date of acquisition whereby costs directly attributable to the acquisition are expensed for transactions closed after 1 January 2010. 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.

If applicable, the Group recognizes at the acquisition date a liability for any contingent purchase consideration. If the amount of contingent consideration accounted for as a liability changes as a result of a post-acquisition event (such as meeting an earnings target), it is recognized in accordance with other applicable IFRSs, as appropriate rather than as an adjustment of goodwill for acquisitions concluded after 1 January 2010. For acquisitions concluded before that date, the difference between the contingent consideration recognized at the acquisition date and the actual contingent consideration paid was recognized as an adjustment to goodwill.

As for the measurement of non-controlling interest, from 1 January 2010, the Group may recognize 100% of the goodwill of the acquired entity, not just the Group's portion of the goodwill. This is elected on a transaction-by transaction basis. Before that date, the Group could only recognize its own share of the goodwill. Since 1 January 2010, the Group also attributes their share of losses to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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, except for land, is carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. The cost of property and equipment acquired in a business combination is their fair value as at the date of acquisition. 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 recognized as a provision according to IAS 37.

Cost includes all costs directly attributable to bringing the asset into working condition for its use as intended by the management. In the case of the network, this comprises all expenditures, including internal costs directly attributable to network construction, and includes contractors' fees, materials and direct labour. No borrowing costs were capitalized during 2010 or 2011. The cost of subsequent enhancement is included in the asset's carrying amount or recognized 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. Maintenance, repairs and minor renewals are charged to the income statement as incurred.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the period the asset is derecognized. 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, so as to write down their cost to their estimated residual values over their useful lives. The depreciation charge is identified separately for each significant part of an item of property and equipment.

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

Buildings and masts	50 years
Other structures	5 to 15 years
Duct, cable and other outside plant	8 to 50 years
Telephone exchanges and related equipment	4 to 30 years
Radio and transmission equipment	8 years
Other fixed assets	13 months to 30 years

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

The assets' residual values and useful lives are reviewed and adjusted in accordance with IAS 8, where 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.

Property and equipment are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized 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 recognising the original impairment loss no longer apply.

When property and equipment meet the criteria to be classified as held for sale, they are measured at the lower of their carrying amount and fair value less costs to sell and are reclassified from non-current to current. Property and equipment once classified as held for sale are not depreciated.

2.3 Intangible assets

Intangible assets acquired separately are recognized when control over them is assumed and are initially measured at 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 amortization and any accumulated impairment losses. Intangible assets are assessed for impairment whenever there is an indication that they may be impaired. With the exception of goodwill, intangible assets have a finite useful life and are amortized using the straight-line method over their useful life. 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:

Customer contracts	8 to15 years
Licenses	5 to 16 years
Software and other	2 to 16 years

Any gain or loss arising on derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and are included in the income statement in the period the asset is derecognized.

Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the group's net identifiable assets acquired and liabilities assumed. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortized but reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired (Note 15).

Computer software and licenses

Development costs directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognized 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 capitalized as part of the software product include the software development employee costs. Other development expenditures that do not meet recognition criteria and costs associated with maintaining computer software programs are recognized as an expense as incurred.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Cost comprises all directly attributable costs necessary to create, produce and prepare the software to be capable of operating in the manner intended by management, including enhancements of applications in use. Cost also includes borrowing cost when those costs are incurred, if the recognition criteria are met.

Costs associated with the acquisition of long term frequency licenses are capitalized. The useful lives of concessions and licenses are determined based on the underlying agreements and are amortized on a straight-line basis over the period from availability of the frequency for commercial use until the end of the initial concession or license term. No renewal periods are considered in the determination of useful life.

2.4 Impairment of non-financial assets

Assets that are subject to depreciation or amortization are reviewed for impairment at each reporting date whenever events or circumstances indicate that the carrying amount may not be recoverable. Assets with indefinite useful life are tested for impairment annually. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The Group determines the recoverable amount of a cash-generating unit on the basis of its value in use. The value in use 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 five-year period, and used for internal purposes. Cash flows beyond the detailed planning periods are extrapolated using appropriate growth rates. Key assumptions on which management bases the determination of value in use include average revenue per user, customer acquisition and retention costs, churn rates, capital expenditures, market share, growth rates and discount rates. The discount rate used reflects the risk specific to the cash-generating unit. Cash flows used reflect management assumptions and are supported by external sources of information.

The structure of the Group's cash-generating units for the purpose of general impairment testing is as follows:

Cash-generating unit	Recurrence of impairment testing
Online business (Zoznam, Zoznam Mobile)	Annually
IT solutions business (PosAm)	Annually

If the carrying amount of the cash-generating unit to which goodwill is allocated exceeds its recoverable amount, goodwill allocated to this cash-generating unit is reduced by the amount of the difference. If the impairment loss recognized for the cash-generating unit exceeds the carrying amount of the allocated goodwill, the additional amount of the impairment loss is recognized through the pro rata reduction of the carrying amounts of the 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 cost 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 the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. For more details on impairment of goodwill in 2011 refer to Note 15.

2.5 Inventories

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

Phone sets are often sold for less than cost in connection with promotions to obtain new subscribers with minimum commitment periods. Such loss on the sale of equipment is only recorded when the sale occurs if the normal resale value is higher than the cost of the phone set. If the normal resale value is lower than costs, the difference is recognized as impairment immediately.

2.6 Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand, short-term deposits with an original maturity of three months or less from the date of acquisition and short term bonds and promissory notes with high liquidity.

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

2.7 Financial assets

The Group classifies its financial assets in the following categories: loans and receivables, financial assets at fair value through profit or loss and held-to-maturity investments. 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. When financial assets are recognized, they are initially measured at fair value, plus, in the 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 recognized 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 derecognized 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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group's loans and receivables comprise "Loans" and "Trade and other receivables".

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 end of the reporting period. Trade and other recievables are initially recognized at fair value and subsequently measured at amortized cost, using the effective interest method, less provision for impairment. For the purpose of an impairment testing the estimated cash flows are based on the past experience of the collectibility of overdue receivables. The recognized allowance for impairment reflects the estimated credit risk.

When the trade receivable for which an allowance was recognized becomes uncollectible or sold, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against costs in the income statement.

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Derivatives are also classified as held for trading. Gains or losses on assets held for trading are recognized in the income statement within financial expense or financial income.

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

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial recognition held-to-maturity investments are measured at amortized cost using the effective interest method. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the investments are derecognized or impaired.

2.8 Impairment of financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset 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 are recognized in the income statement against allowance accounts to reduce the carrying amount until derecognition of the financial asset when the net carrying amount (including any allowance for impairment) is derecognized from the statement of financial position. Any gains or losses on derecognition are calculated and recognized as the difference between the proceeds from disposal and the net carrying amount derecognized and are presented in the income statement.

2.9 Financial liabilities

There are two measurement categories for financial liabilities used by the Group: financial liabilities carried at amortized costs represented by trade and other payables and financial liabilities at fair value through profit or loss. A financial liability is derecognized 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 amortized cost using the effective interest method.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are financial liabilities held for trading and financial liabilities designated upon initial recognition as 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 recognized 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 recognized in the income statement within financial costs or financial income.

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 recognized at their net present value and then amortized over their expected duration. Amortization of easement rights is presented within other operating costs in the income statement.

2.11 Provisions and contingent liabilities

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

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

No provision is recognized 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 recognized 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 amount of the asset retirement obligation initially recognized in the period in which it was incurred is considered as an element of the cost of the related non-current asset in accordance with IAS 16. The obligation is accreted to its present value each period, and the capitalized cost is depreciated over the estimated useful life of the related non-current asset. Upon settlement of the liability, the Group either settles the obligation for its recorded amount or incurs a gain or loss upon settlement.

Customer loyalty program

Members of the loyalty program, which was operated by the Group until the end of 2011, could have collected loyalty points for certain behaviour (e.g. for arranging a direct debit facility, activation of electronic bill, etc.) that were in no way related to a sales transaction. Such loyalty points were outside the scope of IFRIC 13 and the Group recognized a provision against other operating costs in accordance with IAS 37 at the time when those points had been granted. Amount of provision was measured at the amount necessary to settle expected liability to participants of the loyalty program. For the accounting policy regarding the loyalty points gained from sales transaction refer to Note 2.13.

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.

In the case of defined contribution plans, the Group pays contributions to publicly or privately administered pension or severance insurance plans on a mandatory or contractual 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 benefits. These benefits are unfunded. The costs of providing benefits are determined separately for each benefit using the projected unit credit actuarial valuation method. The defined benefit liability comprises the present value of the defined benefit obligation less past service costs not yet recognized. The discount rate is determined using the weighted-average yields for high-quality (Bloomberg Aa*), non-cancellable, non-putable corporate bonds. The currency and term of the bonds are consistent with the currency and estimated term of the benefit obligations. The past service costs are recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits become vested immediately following the introduction of, or changes to, a benefit plan, past service costs are recognized immediately.

Actuarial gains and losses arising from experience-based adjustments and changes in actuarial assumptions are recognized in the period in which they occur, within other comprehensive income for retirement benefits and within the income statement for jubilee benefits.

Termination benefits

Employee termination benefits are recognized in the period when a detailed plan listing the number and structure of employees to be discharged is defined and authorised by management and announced to the trade unions.

2.13 Revenue recognition

Revenue is recognized 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 and the revenue can be measured reliably. Revenue for rendering services and customer equipment sales 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 revenues are recognized when the services are provided in accordance with contractual terms and conditions. Airtime revenue is recognized based upon minutes of use and contracted fees less credits and adjustments for discounts, while subscription and flat rate revenues are recognized in the period they relate to.

Revenues from prepaid cards are recognized when used by a customer or when the credits expire with unused traffic.

Interconnect revenue generated from calls and other traffic that originates in other operators' networks is recognized 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. These charges are recorded within interconnection and other fees to operators.

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

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

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

Activation fees and subscriber acquisition costs

Activation fees are deferred over the expected customer retention period. This period is estimated on the basis of the anticipated term of the customer relationship under the arrangement which generated the activation fee. Subscriber acquisition costs primarily include the loss on the handsets and fees paid to subcontractors that act as agents to acquire new customers. Subscriber acquisition costs are expensed as incurred.

Deferred income – Customer loyalty program

The Group has operated the customer loyalty program until 2011. As part of the program, the Group has granted points to the participants, which could be redeemed in future periods for free or discounted goods or services. Revenue allocated to the points granted in sale transaction based on their fair value was deferred when points were granted to customers. Revenue was recognized when the customers received benefits from the program.

IT revenues

Contracts for network services, which consist of the installation and operation of communication networks for customers, have an average duration of 2 to 3 years. Revenues for voice and data services are recognized under such contracts when used by the customer. Revenue from system integration contracts requiring the delivery of customized products and/or services is recognized when the customized complex solution is being delivered and accepted by a customer.

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

Revenue from hardware and software sales or sales-type leases is recognized when the risk of ownership is substantially transferred to the customer, provided there are no unfulfilled obligations that affect the customer's final acceptance of the arrangement. Any costs of these obligations are recognized when the corresponding revenue is recognized.

Revenue from internally developed software for fixed-price contracts is generally recognized based on the percentage-of-completion taking into account the proportion that contract costs incurred for work performed bear to the estimated total contract costs.

Interest and dividends
Interest income is recognized using the effective interest method. Dividend income is recognized when the right to receive payment is established.

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

Leases of assets in which a significant portion of the 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 the period of the lease.

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

The contracts are analyzed based on the requirements of IFRIC 4, and if they include embedded lease elements, the revenues attributable to these are recognized according to 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 recognized as revenue 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 benefits and risks of ownership are recognized and disclosed as revenue against a finance lease receivable. The revenue equals the estimated present value of the future minimum lease payments receivable and any unguaranteed residual value (net investment in the lease). The cost of the asset sold in a finance lease transaction is recognized at the commencement of the lease. Each lease receipt is then allocated between the receivable and interest income so as to achieve a constant rate of return on the finance receivable balance outstanding. The interest element of the lease receipt is recognized in interest income.

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

Finance lease – the Group as lessee
Leases of property and equipment where the Group assumes substantially all the the benefits and risks of ownership are classified as finance leases. Finance leases are capitalized at the fair value of the asset or if lower, at the estimated present value of the future minimum lease payments. Each lease payment is allocated between the finance liability and interest expense so as to achieve a constatnt rate of interest on the outstanding lease payable. Assets acquired under finance lease contracts are depreciated over the shorter of the lease term or the useful life of the asset.

2.15 Operating profit
Operating profit is defined as the 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 the exchange rates prevailing at the date of the 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 recognized within financial income or expense in the period in which they arise.

2.17 Taxes
The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income. In this case, the tax is also recognized in other comprehensive income.

Current income tax
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. The tax rates and tax laws used to calculate the amounts are those substantively enacted at the statement of financial position date.

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

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

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

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to 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 revenues 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 recognized 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 amortization period or method, as appropriate, and are treated as changes in accounting estimates. Management's estimates and judgements are inherently prone to inaccuracy for those assets for which no previous experience exists.

The Group reviewed useful lives of non-current assets during 2011 and changed accounting estimates where appropriate. The table summarizes net (decrease) / increase in depreciation charge for the following categories of fixed assets:

thousands of EUR	2011	2012	2013	2014	After 2014
Radio base stations	(1,165)	(1,689)	(879)	(623)	(640)
Equipment and special equipment	3,998	3,810	1,715	1,676	1,277
Switching equipment - mobile network	403	1,132	-	-	-
Other (buildings, halls and other equipment)	64	181	45	22	44

Customer relationships

The Group maintains record of customer relationships obtained during the acquisition of control of T-Mobile and PosAm and regularly evaluates appropriatness of useful lives used to amortize these intangible assets on the basis of churn of customers acquired through the business combination.

Easements

On disposal of certain properties where technological equipment is sited and required for the Group's operations, the Group enters into agreements to obtain easement rights to continue to use and access this equipment for extended periods. Management has determined, based on an evaluation of the terms and conditions of these sales agreements, that the Group does not retain the significant risks and rewards of ownership of the properties and accounts for easements as a prepaid expense.

Assessment of impairment of goodwill

Goodwill is tested annually for impairment as further described in Note 2.4 using estimates detailed in Note 15.

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 construction of a mast, which is estimated to be 50 years. The remaining useful life of masts ranges from 31 to 50 as at 31 December 2011. Management's determination of the amount of the asset retirement obligation (Note 26) 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.

Provisions and contingent liabilities

As set out in Notes 26 and 29, 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 estimates the amount needed to settle the possible or probable obligation. Such judgements and estimates are continually reassessed taking into consideration experience with similar cases.

2.19 Comparatives

Certain balances included in the comparative financial statements have been reclassified to conform to the current year presentation. Such reclassifications, in accordance with IAS 1.38, were carried out in order to enhance inter-period comparability of information and comprise the following changes:

a) Statutory reserve fund of T-Mobile as of 30 June 2010 in amount of EUR 24,787 thousand is disclosed in Statutory reserve fund in 2010 comparatives. In the 2010 financial statements this item was presented within Retained earnings.

b) Other reserves of EUR 82,355 thousand is disclosed in Retained earnings in 2010 comparatives. In the 2010 financial statements this item was presented at separate line in Shareholder's equity.

c) Balance of deferred tax asset of EUR 79 thousand is disclosed at separate line within Assets in the statement of financial position 2010 comparatives. In the 2010 statement of financial position this item was presented within Deferred tax liabilities.

d) Balance of earn-out payable to the former owner of PosAm amounting to EUR 2,378 thousand is disclosed in Non-current other payables (Note 24) in the 2010 comparatives. In the 2010 Note 25 this item was presented within Non-current provisions. The reclassification was reflected also in the statement of cash flows. Balance of EUR 143 thousand is disclosed in Interest income, net in the 2010 comparatives. In the 2010 statement of cash flows this item was presented within Movements in provisions.

e) Balance of put option - liability of EUR 11,282 thousand is disclosed at separate line in Non-current other payables (Note 24) in the 2010 comparatives. In the 2010 Note 23 this item was presented within Other non-current payables.

f) Balance of other telecommunication services of EUR 1,898 thousand is disclosed in Content fees (Note 7) in the 2010 comparatives. In the 2010 Note 7 this item was presented within Other operating costs.

g) Balance of other fees to Telecommunications Office of EUR 526 thousand is disclosed in Frequency and other fees to Telecommunications Office (Note 7) in the 2010 comparatives. In the 2010 Note 7 this item was presented within Other operating costs.

h) Balance of fees paid to parent company of EUR 1,400 thousand is disclosed in Fees paid to DT AG (Note 7) in the 2010 comparatives. In the 2010 Note 7 this item was presented within Other operating costs.

Reclassification of balances has no impact on balances in the statement of financial position as of 1 January 2010, therefore no opening statement of financial position as at 1 January 2010 is presented in these financial statements.

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 2011 which are relevant to the Group's operations

- IAS 24 Related Party Disclosures (Revised), effective for periods beginning on or after 1 January 2011

  The definition of a related party has been clarified to simplify the identification of related party relationships, particularly in relation to significant influence and joint control. A partial exemption from the disclosures has been included for government-related entities, whereby the general disclosure requirements of IAS 24 will not apply. Instead, alternative disclosures have been included, requiring:

  - The name of the government and the nature of its relationship with the reporting entity;
  - The nature and amount of individually significant transactions;
  - A qualitative or quantitative indication of the extent of other transactions that are collectively significant.

  Retrospective application in line with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

  The Slovak Government has significant influence on the Group through 49% shareholding. The German Federal Government has significant influence on Deutsche Telekom AG, the ultimate parent of Slovak Telekom. The Group used a partial exemption available for the government related entities and provided alternative simplified disclosures (Note 28).

- Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues, effective for annual periods beginning on or after 1 February 2010

  The definition of a financial liability has been amended to classify rights issues (and certain options or warrants) as equity instruments if:

  - The rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments;
  - The rights are to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

  Retrospective application in line with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

  The changes resulting from the amendment to IAS 32 are not relevant for the Group.

- Improvements to IFRS issued in May 2010, effective for annual periods beginning on or after 1 July 2010 and 1 January 2011 concern the following standards:

  - IFRS 1 First-time Adoption of International Financial Reporting Standards

    The standard is not relevant for the Group.

  - IFRS 3 Business Combinations

    - Clarifies that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3.

    The accounting treatment of contingent consideration that occurred before the effective date of revised IFRS is in line with the guidance in the previous version of IFRS 3. The amendment has no impact on the Group.

    - Requires measurement of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation at fair value (unless another measurement basis is required by other IFRS standards).

    The amendment is not relevant for the Group since all the subsidiaries are fully consolidated.

    - Provides guidance on the acquiree's share-based payment arrangements that were un-replaced and voluntarily replaced as a result of a business combination.

    The amendment is not relevant for the Group.

  - IFRS 7 Financial Instruments Disclosures

    - Amended disclosure requirements emphasize the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments.

    The amendment is relevant for the Group and is applied as required by IFRS 7.

    - Removes the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired.

    The amendment is not relevant for the Group.

    - Replaces the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect.

    The amendment is not relevant for the Group.

    Clarifies that an entity should disclose the amount of foreclosed collateral held at the reporting date, and not the amount obtained during the reporting period.

The amendment is not relevant for the Group.

- IAS 1 Presentation of Financial Statements
  - Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

  The amendment is relevant for the Group and has already been adopted by the Group in its previous year's financial statements.

- IAS 27 Consolidated and Separate Financial Statements
  - Clarifies prospective application of consequential amendments to IAS 21, IAS 28 and IAS 31 that result from changes to IAS 27.

  The amendment is not relevant for the Group.

- IAS 34 Interim Financial Reporting

  The standard is not relevant for the Group.

- IFRIC 13 Customer Loyalty Programmes
  - The meaning of 'fair value' is clarified in the context of measuring award credits under customer loyalty programmes.

  The amendment is relevant for the Group. Fair value used conforms to the IFRIC 13 definition.

The above amendments resulted in additional or revised disclosures, but had no material impact on measurement or recognition of transactions and balances reported in these financial statements.

- Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, effective for annual periods beginning on or after 1 July 2010

  The amendment is not relevant for the Group.

- Amendment to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (Prepayments of a Minimum Funding Requirement), effective for annual periods beginning on or after 1 January 2011

  The amendment is not relevant for the Group.

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments, effective for annual periods beginning on or after 1 July 2010

  The amendment is not relevant for the Group.

Standards, interpretations and amendments to published standards that have been published, are not effective for accounting periods starting on 1 January 2011 and which the Group has not early adopted

- Transfers of Financial Assets, Amendments to IFRS 7 Financial Instruments: Disclosures, effective for annual periods beginning on or after 1 July 2011

  The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognized, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood.

- IFRS 9 Financial Instruments, Part 1: Classification and Measurement, effective for annual periods beginning on or after 1 January 2015

  IFRS 9, issued in November 2009, replaces those parts of IAS 39 Financial Instruments: Recognition and Measurement, relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features of the standard are as follows:

  - Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortized cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

  - An instrument is subsequently measured at amortized cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

  - All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

  - Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted.

- IFRS 10 Consolidated Financial Statements, effective for annual periods beginning on or after 1 January 2013

  IFRS 10 replaces all of the guidance on control and consolidation in IAS 27 Consolidated and Separate Financial Statements and SIC–12 Consolidation – Special-purpose Entities. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance.

- IFRS 11 Joint Arrangements, effective for annual periods beginning on or after 1 January 2013

  IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities - Non-Monetary Contributions by Venturers. Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures.

- IFRS 12 Disclosures of Interests in Other Entities, effective for annual periods beginning on or after 1 January 2013

  IFRS 12 applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28, Investments in associates. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities.

- IFRS 13 Fair Value Measurement, effective for annual periods beginning on or after 1 January 2013

  IFRS 13 aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs.

- Amendment to IAS 1 Presentation of Financial Statements – Presentation of items of other comprehensive income, effective for annual periods beginning on or after 1 July 2012

  The amendment changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'Statement of profit or loss and other comprehensive income'.

- IAS 19 (Revised) Employee Benefits, effective for annual periods beginning on or after 1 January 2013

  The amendment makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) re-measurements in other comprehensive income.

- IAS 27 (Revised) Separate Financial Statements, effective for annual periods beginning on or after 1 January 2013

  IAS 27 was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements.

- IAS 28 (Revised) Investments in Associates and Joint Ventures, effective for annual periods beginning on or after 1 January 2013

  The amendments to IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged.

- Improvements to IFRS (IFRS 1 First-time Adoption of IFRS, IAS 1 Presentation of Financial Statements, IAS 16 Property, Plant and Equipment, IAS 32 Financial Instruments: Presentation, IAS 34 Interim Financial Reporting), effective for annual periods beginning on or after 1 January 2013.

- Other revised standards and interpretations:

  The amendments to IFRS 1 First-time adoption of IFRS, relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, will not have any impact on these financial statements. The amendment to IAS 12 Income Taxes, which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, will not have any impact on these financial statements. IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine, considers when and how to account for the benefits arising from the stripping activity in mining industry.

The future implications of standards, interpretations and amendments that are relevant to the Group are being continuously evaluated and will be applied in accordance with the requirements if applicable.

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 minimise potential adverse effects on the performance of the Group.

The Group's financial instruments include cash and cash equivalents, short-term deposits, held-to-maturity investments and loans. 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 receivables and trade payables which arise from its operations.

The Group enters into derivative transactions. The purpose is to manage the foreign currency risk arising from the Group's operations. The Group does not perform speculative trading with the derivative instruments.

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

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.

The Group can use forward currency contracts, currency swaps or spot-market trading to eliminate the exposure towards foreign currency risk. Hedging financial instruments must be in the same currency as the hedged item. It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximize hedge effectiveness. Such a hedge however does not qualify for hedge accounting under the specific rules of IAS 39.

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 50 thousand.

In 2010 and 2011, the Group entered into currency forward contracts to hedge its foreign currency exposure arising on its firm commitments for future capital and operating expenditures. The forward contracts are expected to mature on the date of the anticipated foreign currency cash expenditures. The Group's main exposure is to 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 EUR against USD, with all other variables held as constant. The 10% change represents management's assessment of the reasonably possible change in foreign exchange rates and is used when reporting foreign currency risk internally in line with treasury policies.

thousands of EUR		2011	2010
Profit before tax	Depreciation of EUR by 10%	(106)	132
	Appreciation of EUR by 10%	87	(108)
Equity	Depreciation of EUR by 10%	(86)	107
	Appreciation of EUR by 10%	70	(88)

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 provides loans to DT AG (Note 21).

The Group's exposure to the risk of changes in market interest rates relates mainly to the Group's held-to-maturity investments. The Group seeks to optimise its exposure towards interest rate risk using a mix of fixed-rate and floating-rate securities. At the end of 2011, the securities portfolio consists of fixed-rate bonds and one treasury bill.

The sensitivity of held-to-maturity investments to changes in interest rates is provided in Note 30.

3.1.3 Other price risk

Other price risk arises on financial instruments because of changes in, for example commodity prices or equity prices. The Group is not exposed to such risks.

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 and securities issuers on the basis of the credit ratings assigned to these institutions by reputable rating agencies and these limits are reviewed on a regular basis. For credit ratings see Notes 21 and 22.

The Group establishes an allowance for impairment that represents its estimate of losses incurred in respect of trade and other receivables. Impairment losses are recognized 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, as well as changes in the internal and external ratings of customers.

In respect of financial assets, which comprise cash and cash equivalents, short-term deposits, held-to-maturity investments, derivative financial instruments, loans and trade 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. In June 2011 the Group and Poštová banka, a.s. signed an Agreement about establishment of a right of lien on securities. The Group thus secured its receivables to maximum principal amount of EUR 50,000 thousand. In total, Poštová banka pledged 16,880 pieces of the state bond SK4120004565 with a nominal value of EUR 56,000 thousand. No other significant agreements reducing the maximum exposure to credit risk had been concluded at 31 December 2011.

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 recognized 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 recognized. The reversal of the impairment loss is recognized in profit or loss.

The table summarises the ageing structure of receivables:

thousands of EUR

At 31 December 2011	Neither past due nor impaired	Past due but not impaired				
		< 30 days	31-90 days	91-180 days	181-365 days	> 365 days
Trade receivables	89,760	970	306	199	600	118
Finance lease receivable	6,063	-	-	-	-	-

At 31 December 2010	Neither past due nor impaired	Past due but not impaired				
		< 30 days	31-90 days	91-180 days	181-365 days	> 365 days
Trade receivables	94,685	619	103	32	42	99

No significant individually impaired trade receivables were included in the provision for impairment losses in 2011 and 2010.

Trade receivables that are past due as at the statement of financial position date, 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.

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 and held-to-maturity investments 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

At 31 December 2011	On demand	Less than 3 months	3 to 12 months	Over 1 year	Total
Trade payables	5,178	103,690	253	-	109,121
Contingent consideration (earn-out)	-	-	2,438	-	2,438
Put option - liability	-	-	-	11,692	11,692

At 31 December 2010	On demand	Less than 3 months	3 to 12 months	Over 1 year	Total
Trade payables	5,505	106,561	15	-	112,081
Contingent consideration (earn-out)	-	-	-	2,378	2,378
Put option - liability	-	-	-	11,282	11,282

3.4 Capital risk management

The Group manages its capital to ensure its ability to support its business activities on an ongoing basis, while maximizing the return to its shareholders and benefits for other stakeholders through optimization of its capital structure to reduce the cost of capital. It takes into consideration any applicable guidelines of the majority shareholder. No changes were made to the objectives, policies or processes in 2011.

The capital structure of the Group consists of equity attributable to shareholders, comprising issued capital, share premium, statutory reserve fund, retained earnings and other components of equity (Note 23). The management of the Group manages capital measured in terms of shareholder's equity amounting to as at 31 December 2011 EUR 1,641,208 thousand (2010: EUR 1,666,113 thousand).

4. Business combinations

4.1 Subsidiary acquired

On 29 January 2010, the Group acquired the majority of the voting shares and obtained control of PosAm, spol. s r.o., an unlisted company with its registered seat at Odborárska 21, 831 02 Bratislava, Slovak Republic, which specializes in IT services, own software development and hardware and software licences sales and system integration. 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 described further below. Accordingly, the consideration transferred includes the present value of the liability related to the acquisition of 49% of PosAm under the put & call options.

The Group acquired PosAm because it extends the range of services that can be offered to its clients. As a result of the acquisition, the Group is expected to increase its presence in the information and communications technology markets.

4.2 Consideration transferred

thousands of EUR	29 January 2010
Cash	10,733
Contingent consideration (i)	2,235
Put option - liability (ii)	9,889
Total	**22,857**

(i) The amount of the earn-out payment is conditional on the financial performance of PosAm for the financial periods 2010 and 2011.

The Group has assessed the nature of the contingent consideration and recognized a liability of EUR 2,235 thousand in 2010, as the Group incurred a contractual obligation to deliver cash to the seller. Consequently, the Group re-measured the liability at the reporting date 2010 to EUR 2,378 thousand (Note 24) with the change being recognized in the income statement.

In 2011 the Group re-measured value of liability to EUR 2,438 thousand and the Group estimates this amount to be paid to the former owner of PosAm in 2012.

(ii) Following the acquisition of a 51% interest in PosAm, Slovak Telekom obtained control over PosAm. Slovak Telekom and the former owner of PosAm also agreed on put & call options which, if triggered, may result in the transfer of the residual 49% equity interest in PosAm to Slovak Telekom.

Slovak Telekom 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.

The liability of EUR 9,889 thousand was the present value of a consideration related to acquisition of the residual 49%. The present value has been calculated on the basis of percentage of ownership of interest x average adjusted EBITDA for two financial periods x progressive coefficient, and discounted. The Group re-measured the liability at the reporting date. The value of the liability at the year-end 2011 was changed and amounts to EUR 11,692 thousand (2010: EUR 11,282 thousand) (Note 24).

Acquisition-related costs of EUR 155 thousand have been fully excluded from the consideration transferred and have been recognized as an expense in the year of acquisition, under Other operating costs in the income statement.

4.3 Assets acquired and liabilities assumed at the date of acquisition

The table summarizes the amount of assets acquired and liabilities assumed recognized as at the acquisition date together with identifiable intangible assets:

thousands of EUR	Net book value (before goodwill calculation	Identifiable intangible assets	Fair value of net assets
Non-current assets	**1,534**	**-**	**1,534**
Current assets	**6,185**	**-**	**6,185**
Cash	2,285	-	2,285
Receivables	3,325	-	3,325
Inventory	215	-	215
Other assets and accruals	360	-	360
Newly recognized intangible assets	**-**	**14,200**	**14,200**
Brand	-	900	900
Customer relationships	-	11,700	11,700
Order backlog	-	1,600	1,600
Liabilities	**2,732**	**-**	**2,732**
Payables	2,004	-	2,004
Provisions and other liabilities	297	-	297
Income tax and other taxes	286	-	286
Accruals	145	-	145
Deferred tax	**-**	**2,698**	**2,698**
NET ASSETS	**4,987**	**11,502**	**16,489**

The fair value of receivables acquired was EUR 3,325 thousand, of which trade receivables amounted to EUR 3,314 thousand. The gross contractual amount for trade receivables due was EUR 3,427 thousand, of which EUR 113 thousand was expected to be non-collectable.

The fair value of the identifiable intangible assets acquired was EUR 11,502 thousand net of the deferred tax liability of EUR 2,698 thousand. The most significant amount of EUR 11,700 thousand belonged to a Customer Relationships intangible asset. For the purposes of purchase price allocation, the intangible asset was interpreted as relations with big and medium-sized customers only. The key drivers used in the valuation of customer relationships were attrition rates, value of the revenues per customer and EBITDA margins of the customer base.

Identifiable intangible assets had the following useful lives assigned: brand: 4 years, customer relationships: 15 years and order backlog: 1 year.

4.4 Goodwill arising on acquisition

thousands of EUR	29 January 2010
Consideration transferred	22,857
Less: fair value of identifiable net assets acquired	(16,489)
Goodwill arising on acquisition	**6,368**

Goodwill arose in the acquisition of PosAm as the consideration paid for the business combination effectively included amounts in relation to the benefit from the expected synergies, revenue growth, future market development and the trained workforce of PosAm. These benefits are not recognized separately from goodwill as they do not meet the recognition criteria for identifiable intangible assets.

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

4.5 Net cash outflow on acquisition of subsidiary

thousands of EUR	29 January 2010
Consideration paid in cash	10,733
Less: cash and cash equivalent balances acquired	(2,285)
	8,448

4.6 Impact of acquisition on the results of the Group

From the date of acquisition till the 31 December 2010, PosAm has contributed EUR 26,753 thousand of revenue (net of intercompany revenues) and EUR 2,798 thousand to the net profit before tax of the Group (net of intercompany revenues and expenses). If the business combination had taken place at the beginning of the year 2010, revenue of the Group would have been EUR 935,696 thousand and the profit before tax of the Group would have been EUR 150,030 thousand.

5. Revenue

thousands of EUR	2011	2010
Fixed network communication revenue	208,330	237,226
Wholesale revenue	70,117	63,731
IP / Internet revenue	101,125	97,145
Total fixed network and broadband revenue	**379,572**	**398,102**
Mobile communication revenue	462,179	492,542
Other revenue	55,604	43,619
Total revenue	**897,355**	**934,263**

6. Staff costs

thousands of EUR	2011	2010
Wages and salaries	116,436	123,198
Social security contributions	29,527	30,314
	145,963	**153,512**

	2011	2010
Number of employees at period end	4,198	4,980

Number of employees does not include expatriates working for the Group as of 31 December 2011: 3 (2010: 4).

7. Other operating costs

thousands of EUR	2011	2010
Repairs and maintenance	22,263	21,081
Outsourced services	11,860	14,841
Marketing	24,800	32,542
Energy	16,641	14,545
Postal services	4,949	6,685
Rentals and leases	19,486	20,489
IT services	12,640	13,344
Dealers' commissions	21,759	23,388
Material sold	2,865	3,862
Business trips and training	2,656	2,475
Frequency and other fees to Telecommunications Office (Note 28)	7,353	7,000
Content fees	15,768	11,729
Consultancy	9,900	9,201
Bad debts expenses	2,866	5,288
Customer solutions	14,038	11,348
Fees paid to DT AG	4,658	1,400
Other	19,207	25,931
Own work capitalized	(15,447)	(16,885)
	198,262	**208,264**

8. Other operating income

thousands of EUR	2011	2010
Gain on disposal of property and equipment, net	1,022	349
Income from material sold	4,855	5,780
Income from termination of loyalty program	2,167	-
Reversal of impairment of assets (Note 12,13)	289	4,147
Other	5,880	5,461
	14,213	**15,737**

9. Financial income

thousands of EUR	2011	2010
Reversal of impairment of held-to-maturity investments	-	664
Interest on short-term deposits	1,681	622
Interest on intragroup loans	2,777	1,458
Interest on held-to-maturity investments	1,356	938
Interest from finance lease	121	-
Net gain on financial instruments held for trading	-	7
Other	891	851
	6,826	**4,540**

10. Financial expense

thousands of EUR	2011	2010
Unwinding of put option liability	411	1,393
Amounts paid to former owner of PosAm	980	440
Change in fair value of earn-out payable (Note 24)	60	143
Impairment of held-to-maturity investments	199	-
Employee benefits - interest cost	377	93
Foreign exchange losses, net	174	474
Interest cost on restoration obligations	182	460
Net loss on financial instruments held for trading	52	-
Bank charges and other financial expense	88	132
	2,523	**3,135**

11. Taxation

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

thousands of EUR	2011	2010
Current tax expense	41,895	40,410
Deferred tax income	(12,252)	(11,501)
Income tax expense reported in the income statement	**29,643**	**28,909**

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	2011	2010
Profit before income tax	141,541	149,768
Income tax calculated at the statutory rate of 19% (2010: 19%)	26,893	28,456
Effect of income not taxable and expenses not tax deductible:		
Creation / (release) of legal and regulatory provisions	67	(107)
Impairment of goodwill	570	-
Other tax non-deductible items, net	2,015	1,779
Tax charge / (recovery) in respect of prior years	98	(1,219)
Income tax at the effective tax rate of 21% (2010: 19%)	**29,643**	**28,909**

Deferred tax assets (liabilities) for the year ended 31 December 2011 are attributable to the following items:

thousands of EUR	1 January 2011	Through income statement	Through other comprehensive income	31 December 2011
Difference between carrying and tax value of fixed assets	(163,099)	14,178	-	(148,921)
Allowance for held-to-maturity investments	1,922	38	-	1,960
Staff cost accruals	1,496	717	-	2,213
Allowance for bad debts	3,591	(1,098)	-	2,493
Termination benefits	752	(316)	-	436
Other	4,483	(1,267)	(627)	2,589
Net deferred tax liability	**(150,855)**	**12,252**	**(627)**	**(139,230)**

Deferred tax assets (liabilities) for the year ended 31 December 2010 are attributable to the following items:

thousands of EUR	1 January 2010	Through business combination	Through income statement	Through other comprehensive income	31 December 2010
Difference between carrying and tax value of fixed assets	(171,381)	(2,670)	10,952	-	(163,099)
Allowance for held-to-maturity investments	2,048	-	(126)	-	1,922
Staff cost accruals	1,656	-	(160)	-	1,496
Allowance for bad debts	3,214	-	377	-	3,591
Termination benefits	667	-	85	-	752
Other	3,993	-	373	117	4,483
Net deferred tax liability	**(159,803)**	**(2,670)**	**11,501**	**117**	**(150,855)**

Deferred tax assets (liabilities) are reflected in the statement of financial position as follows:

thousands of EUR	2011	2010
Deferred tax assets	66	79
Deferred tax liabilities	(139,296)	(150,934)
	(139,230)	**(150,855)**

12. Assets held for sale

thousands of EUR	Land, buildings and related equipment 2011	2010
At 1 January	1,134	8,314
Net transfer to and from property and equipment (Note 13)	(978)	(7,253)
Reversal of impairment charge (Note 8)	-	470
Assets sold	(156)	(397)
At 31 December	**-**	**1,134**

The Group transferred during 2011 assets of EUR 978 thousand to property and equipment. These assets ceased to meet the criteria to be classified as held for sale as the Group does not expect the sale to be completed within one year. There was no financial impact from the transaction.

13. Property and equipment

thousands of EUR	Land and buildings	Duct, cable and other outside plant	Telephone exchanges and related equipment	Radio and transmission equipment	Other	Construction in progress including advances	Total
At 1 January 2011							
Cost	177,428	969,757	1,248,939	294,151	277,514	50,846	3,018,635
Depreciation	(69,463)	(418,165)	(1,073,248)	(215,217)	(168,892)	(725)	(1,945,710)
Net book value	**107,965**	**551,592**	**175,691**	**78,934**	**108,622**	**50,121**	**1,072,925**
Additions	4,049	11,608	17,132	3,246	23,988	31,071	91,094
Depreciation charge	(6,695)	(31,612)	(58,185)	(25,858)	(31,012)	-	(153,362)
Impairment charge	(1,951)	(40)	(1,032)	(1,106)	(1,940)	(685)	(6,754)
Reversal of impairment	135	35	12	-	40	67	289
Disposals	(1,016)	(4)	(180)	(4)	(331)	(9)	(1,544)
Transfers	3,817	1,184	9,803	(663)	11,514	(25,124)	531
Transfer from assets held for sale	974	3	-	-	1	-	978
At 31 December 2011							
Cost	183,047	976,989	1,252,651	315,108	310,564	56,778	3,095,137
Depreciation	(75,769)	(444,223)	(1,109,410)	(260,559)	(199,682)	(1,337)	(2,090,980)
Net book value	**107,278**	**532,766**	**143,241**	**54,549**	**110,882**	**55,441**	**1,004,157**

Property and equipment, excluding motor vehicles, is insured to a limit of EUR 25,000 thousand (2010: EUR 25,000 thousand). Motor vehicles are insured to a limit of EUR 2,500 thousand (2010: EUR 2,500 thousand) for damage on health and expenses related to death and EUR 664 thousand for damage caused by destroyed, seized or lost items, lost profits.

The impairment charge relates mainly to the buildings which the Group intends to be sold and to the equipment and other assets which are considered to be obsolete, has no future use and will be either sold or liquidated.

thousands of EUR	Land and buildings	Duct, cable and other outside plant	Telephone exchanges and related equipment	Radio and transmission equipment	Other	Construction in progress including advances	Total
At 1 January 2010							
Cost	157,151	956,388	1,262,188	292,335	255,511	40,280	2,963,853
Depreciation	(54,967)	(391,785)	(1,056,218)	(192,165)	(145,715)	(814)	(1,841,664)
Net book value	**102,184**	**564,603**	**205,970**	**100,170**	**109,796**	**39,466**	**1,122,189**
Acquisition through business combination	3	-	-	-	825	-	828
Additions	3,435	16,731	19,439	4,935	28,114	33,410	106,064
Depreciation charge	(8,790)	(30,899)	(58,397)	(30,998)	(32,891)	-	(161,975)
Impairment charge	(488)	(212)	(1,365)	-	(1,668)	(653)	(4,386)
Reversal of impairment	3,677	-	-	-	-	-	3,677
Disposals	(231)	(27)	(97)	-	(361)	(9)	(725)
Transfers	1,633	943	10,015	4,827	4,675	(22,093)	-
Transfer to and from assets held for sale	6,542	453	126	-	132	-	7,253
At 31 December 2010							
Cost	177,428	969,757	1,248,939	294,151	277,514	50,846	3,018,635
Depreciation	(69,463)	(418,165)	(1,073,248)	(215,217)	(168,892)	(725)	(1,945,710)
Net book value	**107,965**	**551,592**	**175,691**	**78,934**	**108,622**	**50,121**	**1,072,925**

14. Intangible assets

thousands of EUR	Customer contracts	Licenses	Goodwill	Software	Other	Total
At 1 January 2011						
Cost	418,678	85,612	84,349	403,631	41,605	1,033,875
Amortization	(214,966)	(49,026)	-	(360,207)	(7,273)	(631,472)
Net book value	**203,712**	**36,586**	**84,349**	**43,424**	**34,332**	**402,403**
Additions	-	47,767	-	12,202	20,171	80,140
Additions from internal developments	-	-	-	218	-	218
Amortization charge	(36,497)	(6,296)	-	(31,544)	(416)	(74,753)
Impairment charge	-	-	(3,000)	-	(40)	(3,040)
Transfers	-	-	-	20,606	(21,137)	(531)
At 31 December 2011						
Cost	423,381	133,379	84,349	430,866	35,892	1,107,867
Amortization	(256,166)	(55,322)	(3,000)	(385,960)	(2,982)	(703,430)
Net book value	**167,215**	**78,057**	**81,349**	**44,906**	**32,910**	**404,437**

In August 2011 the Telecommunication Office of the Slovak Republic prolonged the license for the provision of mobile services under the frequencies of 900 MHz, 1800 MHz and 450 MHz for the price of EUR 47,767 thousand (Notes 1, 28). Carrying value of the license as at 31 December 2011 is EUR 45,777 thousand and license is valid until 31 August 2021.

Significant part of customer contracts was recognized at the acquisition of T-Mobile in December 2004. Carrying values of those customer contracts as at 31 December 2011 and remaining useful lives are: EUR 115,169 thousand and 6 years for post-paid business customers, EUR 31,333 thousand and 3 years for post-paid residential customers, EUR 4,571 thousand and 1 year for prepaid customers, EUR 5,847 thousand and 4 years for DNS customers.

Remaining part of customer contracts was recognized at acquisition of subsidiaries PosAm, Zoznam and Zoznam Mobile with total net book value as at 31 December 2011 of EUR 10,296 thousand.

Net book value of the category Other includes Intangible assets in progress of EUR 32,353 thousand (2010: EUR 32,698 thousand).
For carrying value and impairment of goodwill refer to Note 15.

thousands of EUR	Customer contracts	Licenses	Goodwill	Software	Other	Total
At 1 January 2010						
Cost	406,978	85,612	77,981	379,643	26,630	976,844
Amortization	(178,654)	(44,118)	-	(331,294)	(5,514)	(559,580)
Net book value	**228,324**	**41,494**	**77,981**	**48,349**	**21,116**	**417,264**
Acquisition through business combination	11,700	-	6,368	529	2,648	21,245
Additions	-	-	-	16,157	25,506	41,663
Additions from internal developments	-	-	-	568	-	568
Amortization charge	(36,312)	(4,908)	-	(35,139)	(1,760)	(78,119)
Impairment charge	-	-	-	(218)	-	(218)
Transfers	-	-	-	13,178	(13,178)	-
At 31 December 2010						
Cost	418,678	85,612	84,349	403,631	41,605	1,033,875
Amortization	(214,966)	(49,026)	-	(360,207)	(7,273)	(631,472)
Net book value	**203,712**	**36,586**	**84,349**	**43,424**	**34,332**	**402,403**

15. Impairment of goodwill

For impairment testing, the goodwill acquired in business combinations has been allocated to individual cash-generating units, as follows:

thousands of EUR	T-Mobile	PosAm	Zoznam & Zoznam Mobile	Spolu
Goodwill at 1.1.2011	73,313	6,368	4,668	84,349
Addition	-	-	-	-
Impairment (Note 14)	-	-	(3,000)	(3,000)
Goodwill at 31.12.2011	**73,313**	**6,368**	**1,668**	**81,349**

T-Mobile

The goodwill is tested for impairment by DT AG. Since 2011 it is tested on Slovak Telekom level. The recoverable amount of the cash-generating unit was determined using cash flows projections based on the ten-year financial plans that have been approved by management and are also used for internal purposes. Cash flows beyond the ten-year period are extrapolated using a 2% growth rate (2010: 2%) and a discount rate of 6.99% (2010: 7.62%). This 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. The recoverable amount of the cash-generating unit based on value in use calculation was determined to exceed 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.

PosAm

The recoverable amount of the cash-generating unit was determined using cash flows projections based on the five-year financial plans that have been approved by management and are also used for internal purposes. Cash flows beyond the five-year period are extrapolated using a 2% growth rate (2010: 3%) and a discount rate of 8.3% (2010: 8.68%). This 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 the cash-generating unit include the development of revenue from sale of hardware and software licenses, IT services and software solutions, customer acquisition and retention costs, capital expenditure and market share. The recoverable amount of the cash-generating unit based on value in use calculation was determined to exceed 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.

Zoznam a Zoznam Mobile

The recoverable amount of the cash-generating unit was determined using cash flows projections based on the five-year financial plans that have been approved by management and are also used for internal purposes. Cash flows beyond the five-year period are extrapolated using a 2% growth rate (2010: 4%) and a discount rate of 10.92% (2010: 10.35%). This 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 the cash-generating unit include the development of revenue from banner advertising, priority listing, e-commerce, application development and / or new products launch, customer acquisition and retention costs, capital expenditure and market share. The carrying value of the cash generating unit exceeded its recoverable amount based on value in use calculation by EUR 3,000 thousand in 2011 and the Group allocated impairment to goodwill in the same amount (Note 14). If the impairment test of goodwill at the cash generating unit had been conducted using discount rate that was 1% higher, the impairment loss to be recognized would have increased by EUR 312 thousand. If, by contrast, the discount rate had been 1% lower, the resulting impairment loss would have been EUR 550 thousand lower. If the growth rate used as a basis in the impairment test had been 1% lower, the impairment loss would have been EUR 227 thousand higher. In turn, impairment loss would have been EUR 410 thousand lower if the growth rate had been 1% higher.

16. Principal subsidiary undertakings

At 31 December 2011, the Group had the following subsidiaries:

Name	Registered office	Activity	Profit 2011	Profit 2010	Net assets 2011	Net assets 2010
thousands of EUR						
PosAm, spol. s r. o.	Odborárska 21, 831 02 Bratislava	IT services, applications and business solutions	2,366	2,995	7,240	6,874
Zoznam, s.r.o.	Viedenská cesta 3-7, 851 01 Bratislava	Internet portal	123	(326)	1,771	1,648
Zoznam Mobile, s.r.o.	Viedenská cesta 3-7, 851 01 Bratislava	Mobile content provider	60	171	368	309
Telekom Sec, s.r.o.	Kukučínova 52, 831 03 Bratislava	Security services	(3)	(4)	3	6
Until July 2011 the Group had the following subsidiary:						
Institute of Next Generation Networks	Poštová 1, 010 08 Žilina	NGN technology research and development	-	(30)	-	(281)

Financial data for subsidiaries are based on their separate financial statements.

All subsidiaries are incorporated in the Slovak Republic and, except for PosAm, are wholly owned by Slovak Telekom. Shares in the subsidiaries are not traded on a public market.

On 11 February 2010, the Board of Directors of Slovak Telekom approved the liquidation of the Institute of Next Generation Networks. The liquidation was completed in November 2010 and the entity ceased to exist in July 2011.

On 29 January 2010, Slovak Telekom acquired 51% equity interest and voting rights in PosAm (Note 4).

17. Inventories

thousands of EUR	2011	2010
Cables, wires and spare parts	2,887	3,967
Phones, accessories for mobile communication	7,209	5,996
Other inventory including goods for resale	1,156	3,770
	11,252	**13,733**

The Group reversed write-down of inventories in amount of EUR 540 thousand (2010: write-down expense EUR 470 thousand) which is recognized in cost of material and equipment.

18. Trade and other receivables

thousands of EUR	2011	2010
Non-current		
Finance lease receivable (Note 19)	4,509	-
	4,509	**-**
Current		
Trade receivables from third parties	102,541	105,302
Trade receivables from related parties (Note 28)	4,770	4,356
Other receivables from third parties	1,778	7,218
Other receivables from related parties (Note 28)	1,048	508
Finance lease receivable (Note 19)	1,554	-
	111,691	**117,384**

Trade receivables are net of an allowance of EUR 22,549 thousand (2010: EUR 27,284 thousand).

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

thousands of EUR	2011	2010
At 1 January	27,284	25,519
Charge for the year	6,197	7,473
Utilised	(9,424)	(3,574)
Reversed	(1,508)	(2,134)
At 31 December	**22,549**	**27,284**

19. Finance lease – the Group as lessor

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. A finance lease is a lease that transfers substantially all the risk and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

The Group entered into a lease agreement as a lessor with the commencement of the lease in May 2011. Based on the agreement, the Group leases terminal equipment (PCs, routers) to the customer. By analyzing the terms of the agreement, the Group concluded that the lease meets the criteria for classification as a finance lease. The main criteria are as follows:

a) Ownership of the equipment will be transferred to the lessee at the end of the service period for its residual value (if any) in a case that lessee will request such ownership transfer at least one month before the end of the service period;
b) Non-cancelable lease period is for the major part of the economic life of the assets concerned (53 months from May 2011 until September 2015);
c) The present value of the minimum lease payments amounts to all of the fair value of the leased asset.

thousands of EUR	2011
Gross investment in the lease	
Not later than 1 year	1,716
Later than 1 year and not later than 5 years	4,703
Later than 5 years	-
Unearned finance income	(356)
Present value of minimum lease payments	**6,063**

thousands of EUR	2011
Present value of minimum lease payments	
Not later than 1 year (Note 18)	1,554
Later than 1 year and not later than 5 years (Note 18)	4,509
Later than 5 years	-
	6,063

20. Prepaid expenses and other assets

thousands of EUR	2011	2010
Non-current		
Deferred activation fees	5,067	6,238
Easement	9,931	9,849
Accrued revenues	-	3,764
Other	3,221	2,725
	18,219	**22,576**
Current		
Deferred activation fees	3,863	4,514
Accrued revenues	-	8,185
Other	3,234	3,784
	7,097	**16,483**

21. Loans to Deutsche Telekom group

The Group provided the following loans to Deutsche Telekom group:

thousands of EUR	Úroková sadzba	Splatnosť	2011	2010
Deutsche Telekom AG	2.120%	1.6.2012	40,000	-
Deutsche Telekom AG	2.050%	10.2.2012	60,000	-
Deutsche Telekom AG	2.100%	30.3.2012	90,000	-
Deutsche Telekom AG	1.395%	14.1.2011	-	20,000
Deutsche Telekom AG	1.250%	3.3.2011	-	20,000
Deutsche Telekom AG	1.395%	14.1.2011	-	45,000
Short-term loan (Note 28)			**190,000**	**85,000**

The loans granted to Deutsche Telekom AG are not secured. Deutsche Telekom AG has rating BBB+.

22. Cash and cash equivalents

thousands of EUR	2011	2010
Cash and cash equivalents	178,633	169,828
	178,633	**169,828**

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.

Credit quality of cash at banks is as follows: rating A+: EUR 90,589 thousand, rating A-: EUR 8,010 thousand and rating A: EUR 79,179 thousand.

23. Shareholders' equity

On 1 April 1999, Slovak Telekom became a joint-stock company with 20,717,920 ordinary shares authorized, issued and fully paid at a par value of EUR 33.2 per share. Deutsche Telekom AG acquired 51% of Slovak Telekom through a privatization agreement effective from 4 August 2000, by which the Company issued 5,309,580 new ordinary shares with a par value of EUR 33.2 per share. The shares were issued at a premium totalling EUR 386,139 thousand. All the newly issued shares were subscribed and fully paid by Deutsche Telekom AG. The privatization transaction also involved the purchase by Deutsche Telekom AG of 7,964,445 existing ordinary shares from the National Property Fund of the Slovak Republic. By acquiring 51% share of Slovak Telekom, Deutsche Telekom obtained 51% of the total voting rights associated with the shares.

As of 31 December 2011, Slovak Telekom had authorized and issued 26,027,500 ordinary shares (2010: 26,027,500) with a par value of EUR 33.2 per share. All the shares issued were fully subscribed. Due to the change in the functional currency of the Company from the Slovak Crown to EUR as at 1 January 2009, there was an increase in the share capital of the Company of EUR 158 thousand. The statutory reserve fund of the Company was used to cover the increase in share capital.

In December 2009, the Board of Directors of Slovak Telekom approved the concept of the integration of Slovak Telekom with its 100% subsidiary T-Mobile. T-Mobile ceased to exist with effect from 1 July 2010 and was wound up without liquidation as of 30 June 2010 on the basis of a merger agreement concluded between Slovak Telekom and T-Mobile. On the Group's acquisition of a controlling interest in T-Mobile at 31 December 2004, the assets and liabilities of T-Mobile were re-measured to their fair values. The excess of the fair value of the net assets acquired before 31 December 2004 over their value reported within investments in joint ventures of EUR 158,625 thousand was included in other reserves and was released into retained earnings on annual basis (2010, until 30 June: EUR 7,367 thousand). At the merger date, the value of other reserves as of 1 July 2010 of EUR 89,723 thousand was transferred into retained earnings.

Financial statements for the year ended 31 December 2010 were authorized for issue on behalf of the Board of Directors of the Group on 10 March 2011.

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. On 28 April 2011, the General Meeting approved distribution of the prior year profit and resolved to transfer 10% of the prior year statutory profits to the reserve fund, with the remaining part of the 2010 profit being retained.

In 2011 Slovak Telekom declared and paid a dividend of EUR 4.99 per share (2010: EUR 5.11 per share). On the basis of this proposed appropriation, total dividends of EUR 130,000 thousand (2010: EUR 132,933 thousand) were paid in July 2011. Approval of the 2011 profit distribution will take place at the Annual General Meeting scheduled for 30 April 2012.

24. Trade and other payables and deferred income

thousands of EUR	2011	2010
Non-current		
Contingent consideration (earn-out) (Note 4.2)	-	2,378
Put option - liability (Note 4.2)	11,692	11,282
Deferred income	6,200	8,128
Other	64	167
	17,956	**21,955**
Current		
Trade payables to third parties	97,651	107,340
Trade payables to related parties (Note 28)	11,470	4,741
Amounts due to employees	21,317	19,850
Contingent consideration (earn-out) (Note 4.2)	2,438	-
Deferred income	37,046	40,231
Other payables to third parties	13,007	14,164
Other payables to related parties (Note 28)	56	-
	182,985	**186,326**

Amounts due to employees include social fund liabilities:

thousands of EUR	2011	2010
At 1 January	140	216
Additions from business combination	-	24
Additions	1,786	1,776
Utilisation	(1,705)	(1,876)
At 31 December	**221**	**140**

25. Finance lease – the Group as lessee

The Group leases vehicles and diesel aggregate under finance leases. Net book value of vehicles is EUR 210 thousand (2010: EUR 364 thousand) and net book value of the aggregate is EUR 16 thousand (2010: EUR 24 thousand) as at 31 December 2011. The average lease term of vehicles and diesel aggregate is 3.5 and 4 years respectively. The Group has options to purchase the equipment for a nominal amount at the end of the lease terms. The Group's obligations under finance leases are secured by the lessor's title to the leased assets.

Interest rates underlying all obligations under finance leases are fixed at respective contract dates 1.1% per annum.

thousands of EUR	2011	2010
Minimum lease payments		
Not later than one year	103	134
Later than one year and not later than three years	59	162
Later than three and not later than five years	5	5
	167	**301**

thousands of EUR	2011	2010
Current	103	134
Non-current	64	167
	167	**301**

26. Provisions

thousands of EUR	Legal and regulatory claims	Asset retirement obligation	Loyalty program	Termination benefits	Employee benefits	Other	Total
At 1 January 2011	1,757	8,436	2,449	3,960	2,912	2,301	21,815
Arising during the year	979	134	181	6,964	1,023	3,543	12,824
Reversals	(483)	(629)	(1,275)	-	(3,478)	(257)	(6,122)
Utilised	(140)	(140)	(1,330)	(8,629)	(87)	(3,148)	(13,474)
Interest impact	-	182	-	-	367	10	559
At 31 December 2011	**2,113**	**7,983**	**25**	**2,295**	**737**	**2,449**	**15,602**
Non-current	-	7,983	-	-	737	1,271	9,991
Current	2,113	-	25	2,295	-	1,178	5,611
	2,113	**7,983**	**25**	**2,295**	**737**	**2,449**	**15,602**

Legal and regulatory claims

The provision includes amounts in respect of legal and regulatory claims brought against the Group. It is the opinion of the Group's management that the outcome of these legal and regulatory claims will not result in any significant loss beyond the amounts provided at 31 December 2011.

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.

Loyalty program

From August 2011, the Group discontinued provision of the loyalty points to its customers. All points granted by August 2011, but not redeemed by the customers expired on 31 December 2011. Provision for the points, which were not utilized by customers, was released. Remaining balance of the provision of EUR 25 thousand was released in January 2012.

Termination benefits

The restructuring of the Group's operations resulted in headcount reduction of 733 employees in 2011. The Group expects a further headcount reduction of 169 employees in 2012 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 recognized in full in the current period.

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 2011	8,528	275	8,803
Interest cost	358	9	367
Current service cost	552	19	571
Past service costs due to plan amendments	2,530	-	2,530
Benefits paid	(66)	(20)	(86)
Actuarial gains	(3,299)	(26)	(3,325)
At 31 December 2011	**8,603**	**257**	**8,860**
Past service cost not recognized in the statement of financial position	(7,970)	-	(7,970)
Curtailment gain	(105)	(48)	(153)
Liability recognized in the statement of financial position at 31 December 2011	**528**	**209**	**737**

Past service costs in amount of EUR 2,530 thousand relate to amended terms of retirement benefit. The curtailment gain in amount of EUR 153 thousand resulted from a reduction in the number of participants covered by the retirement and jubilee benefit plans.

Principal actuarial assumptions, except for interest costs, used in determining the defined benefit obligation include the discount rate of 5.210%. Interest costs include the discount rate as at the beginning of the accounting period of 3.238 %. Average retirement age is 62 years. The expected growth of nominal wages is 2.900%.

27. Commitments

The Group's non-current assets purchase and miscellaneous purchase commitments were as follows:

thousands of EUR	2011	2010
Commitments for the acquisition of intangible assets	14,603	1,234
Commitments for the acquisition of property and equipment	8,690	9,909
Commitments for the purchase of services and inventory	93,142	40,919
	116,435	**52,062**

The Group has commitments for the acquisition of tangible and intangible fixed assets mainly with Deutsche Telekom AG of EUR 6,150 thousand relating to the project NG CRM.

The Group has other purchase commitments relating primarily to outsourcing of operation and maintenance of technologies with Ericsson Slovakia of EUR 18,400 thousand, provision of satellite digital TV with Magyar Telekom of EUR 15,261 thousand, purchase of devices from Apple of EUR 8,985 thousand and Leadtek of EUR 4,148 thousand, outsourcing of real estate management with BK Service International of EUR 7,441 thousand and management of data centres with COFELY of EUR 5,120 thousand.

The future minimum operating lease payments were as follows:

thousands of EUR	2011	2010
Operating lease payments due within one year	6,114	12,227
Operating lease payments due between one and five years	6,927	14,771
Operating lease payments due after five years	111	2,145
	13,152	**29,143**

The Group has commitments under operating leases of EUR 8,732 thousand from rental of administration premises and of EUR 4,420 thousand for shops and car fleet rental.

28. Related party transactions

	Receivables		**Payables**		**Sales and income**		**Purchases**		**Commitments**	
thousands of EUR	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
DT AG	191,639	85,861	8,953	2,348	5,459	2,734	10,328	3,657	7,480	-
Other entities in DT AG group	4,177	4,003	2,573	2,393	11,741	11,665	11,744	12,870	-	-
Other shareholders of the Group	2	-	-	-	51	-	1	-	-	-
	195,818	**89,864**	**11,526**	**4,741**	**17,251**	**14,399**	**22,073**	**16,527**	**7,480**	**-**

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 1,852 thousand (2010: EUR 940 thousand).

The Group granted Deutsche Telekom AG a short-term loan of EUR 190,000 thousand (2010: EUR 85,000 thousand). Interest related to the loan amounted to EUR 2,777 thousand (2010: EUR 1,458 thousand) (Notes 9, 21).

The Slovak Government has significant influence over the financial and operating policy decisions of the Group through 49% of the shares of Slovak Telekom. The shares are owned by Slovak Republic through the Ministry of the Economy of the Slovak Republic (34%) and by the National Property Fund of the Slovak Republic (15%). Therefore the Slovak Government and the companies controlled or jointly-controlled by the Slovak Government are classified as related parties of the Group ("Slovak Government related entities").

In 2011 the Group paid to the Telecommunications Office of the Slovak Republic fee of EUR 47,767 thousand for the prolongation of the license for the provision of mobile services under the frequencies of 900 MHz, 1800 MHz and 450 MHz (Notes 1, 14). The Group also incurred expenses of EUR 7,353 thousand (2010: EUR 7,000 thousand) with respect to other frequency and telecommunication equipment related fees to the Telecommunications Office (Note 7).

During 2010 the Group has entered into a contract for the period of 5 years with the Slovak Government related entity on establishment and delivery of communication system, lease of terminal equipment (Note 19), delivery of internet connectivity and other telecommunications services. The total value of the contracts is approximately EUR 23,859 thousand, of which revenue of EUR 12,426 thousand was recognized during 2011.

During 2001 the Group has signed a master agreement with the Slovak Government related entity on providing services of communications infrastructure. The contract amount depends on actual services provided during the financial period. In 2011, the Group recognized revenue related to this contract of EUR 8,673 thousand (2010: EUR 9,073 thousand).

During 2011 the Group purchased electricity and electricity distribution services from the Slovak Government related entities for EUR 8,537 thousand (2010: EUR 13,684 thousand).

During 2011 the Group purchased postal and cash collection services for EUR 5,535 thousand (2010: EUR 6,899 thousand) and leased space for EUR 2,043 thousand (2010: EUR 2,193 thousand) from the Slovak Government related entity.

The Group routinely provides telecommunication and other electronic communication services to the Slovak Government and its related entities as part of its normal business activities. The Group also purchases services and goods from the Slovak Government related entities in the normal course of business.

Deutsche Telekom as the 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 2010 or 2011.

Compensation of key management personnel

The key management personnel, 20 in number (2010: 20) include members of the Executive Management Board, Board of Directors and Supervisory Board.

thousands of EUR	2011	2010
Short term employee benefits	2,495	2,008
Cash based incentive program payments	270	204
	2,765	**2,212**

thousands of EUR	2011	2010
Executive Management Board	2,666	2,138
Board of Directors	55	39
Supervisory Board	44	35
	2,765	**2,212**

29. Contingencies

Legal and regulatory cases

On 8 April 2009, the European Commission ("Commission") opened proceedings against the Company. The Commission is investigating whether the Company may have engaged in conduct obstructing competition in the Slovak Republic, in violation of Article 102 of the Treaty on the Functioning of the European Union ("TFEU") in particular whether the Company has engaged in refusal to supply and/or in margin squeeze conduct to the detriment of its competitors on the broadband market.

The investigation has proceeded through a series of questionnaires, to which the Company responded in a timely and professional manner. The Company has also adopted a pro-active approach to the investigation by submitting four "issues papers", substantiating why the Commission should not intervene in the present case. These papers were accompanied by reports from two independent experts, adding to their credibility.

On 28 January 2011, the Company met with the Commission to discuss the current status of the Commission's investigation. On 3 February 2011 and 5 July 2011 Deutsche Telekom met with the Commission to discuss parental liability of Deutsche Telekom. The Commission now has to decide whether to issue a Statement of Objections setting out its preliminary view. If proven, the allegations against the Company could lead to the Commission finding that the Company was in infringement of Article 102 TFEU and imposing a fine on the Company. In proceedings of this kind, the final amount of the fine shall not, in any event, exceed 10 % of the total turnover in the preceding business year of the undertaking. However, in the event that the Commission is able to establish so-called "parental liability" due to the "influence" that Deutsche Telekom allegedly exerts on the Company, this could be understood as the turnover of the group and could attain 10% of overall turnover. Company's legal position is that the likelihood of the Commission issuing a ruling of infringement and imposing a fine is possible rather than probable and a provision has not been made in these financial statements. Should, however, the Commission decide to adopt an infringement decision, it is not possible at this preliminary stage of the case to predict the level of fine to which Company would be exposed.

In 1999, a lawsuit was brought against Company for compensation of damages and loss of profit allegedly caused by switch-off of the Radio CD International ("CDI") broadcasting in 1996. Radio CDI was a program of Slovak Radio directed to the territory of Austria and broadcasted by Company. In 1996, the broadcasting of the Radio CDI was switched off, based on the request of the Council for Radio and Television Broadcasting stating that Radio CDI broadcasting violated the law. In 2011, the first instance court decided that Company is obliged to pay the plaintiff the amount of EUR 32,179 thousand of the principal and 17.6% late interest since 4 September 1996 until fully paid. Company filed an appeal against that judgment as it is of the opinion that the first instance court did not deal with a number of proofs and assertions provided by Company. Additionally, Company believes that serious errors were committed in the matter at issue on the part of the first instance court, which errors prove the incorrectness of the judgement and should be sufficient enough to consider that whilst the loss in this lawsuit is possible, it is not likely.

In 2007 the Regional Court in Bratislava overturned the second stage decision of the Anti-Monopoly Office ("AMO"), which had imposed on Company a penalty of EUR 29,377 thousand for abuse of dominant position by failing to provide access local loops service (as an essential facility) to Company's competitors within the period of August 2002 to August 2005. Subsequently, AMO initiated a new proceeding on this same issue and imposed on Company the same penalty again. Company filed an administrative complaint against this decision. Subsequently, in 2010, the Regional Court cancelled the challenged AMO decisions in full, however AMO appealed against this judgment. In 2011, the Supreme Court confirmed the judgment of the Regional Court, thus the case was returned back to AMO for further proceedings and correction of errors. On 3 February 2012, Slovak Telekom was delivered a decision of the AMO on closing the proceedings. The decision is final. The AMO admitted that there is no sufficient evidence to prove the abuse of dominant position by failing to provide access to local loops (as an essential facility) to Company's competitors and there is no real expectation that AMO would be able to gather such evidence in the future.

In 2009, AMO imposed on Company a penalty of EUR 17,453 thousand for abusing its dominant position and violating competition law by price squeeze and tying practices on several relevant markets (voice, data and network access services). Company filed an administrative complaint to the Regional Court in Bratislava in 2009. In January 2012 the Regional Court cancelled the challenged AMO decisions in full. The judgment is appealable. As management believes that it is possible rather than probable that this case will result in an obligation to pay the penalty, a provision has not been made in these financial statements.

In 2007 the Regional Court in Bratislava overturned the second stage decision of AMO, which had imposed on Company a penalty of EUR 2,656 thousand for abusing its dominant position in tendering for complex telecommunication project. Subsequently, AMO initiated a new proceeding on this same issue and imposed on Company the penalty of EUR 2,423 thousand for abusing its dominant position in tendering for complex telecommunication project by margin squeeze on data VPN services. Company filed an administrative complaint to the Regional Court in Bratislava in 2009, based on which, in 2010, the Regional Court decided in favour of Company and cancelled AMO decisions in full. AMO appealed this judgement, however, in 2011 the Supreme Court confirmed the first instance judgment and returned the case back to AMO for further proceedings and correction of errors. As management believes that it is possible rather than probable that this case will result in an obligation to pay a penalty, a provision has not been made in these financial statements.

The Company is involved in legal and regulatory proceedings in the normal course of business. Management is confident that the Company will suffer no material loss as a result of such proceedings in excess of the provisions already recognized in the financial statements (Note 26).

Tax legislation

Many areas of Slovak tax law (such as transfer-pricing regulations) have not been sufficiently tested in practice, so there is some uncertainty as to how the tax authorities would apply them. The extent of this uncertainty cannot be quantified. It will be reduced only if legal precedents or official interpretations are available. The Group's management is not aware of any circumstances that may give rise to a future material expense in this respect.

30. Financial assets and liabilities

Fair values

Below is a comparison of the carrying amounts and fair values of main categories of financial instruments carried in the financial statements:

	Carrying amount		Fair value	
thousands of EUR	2011	2010	2011	2010
Financial assets				
Non-current				
Held-to-maturity investments	-	39,266	-	39,344
Finance lease receivable (Note 19)	4,509	-	4,509	-
Current				
Cash and cash equivalents	178,633	169,828	178,633	169,828
Held-to-maturity investments	82,724	43,079	82,757	43,110
Term deposit over 3 months	-	60,000	-	60,000
Trade receivables	107,312	109,658	107,312	109,658
Finance lease receivable (Note 19)	1,554	-	1,554	-
Loans (Note 21)	190,000	85,000	190,000	85,000
Derivative financial instruments held for trading	-	23	-	23
Financial liabilities				
Non-current				
Contingent consideration (earn-out) (Note 24)	-	2,378	-	2,378
Put option – liability (Note 24)	11,692	11,282	11,692	11,282
Current				
Trade payables	109,121	112,081	109,121	112,081
Contingent consideration (earn-out) (Note 24)	2,438	-	2,438	-

Cash and cash equivalents, derivative financial instruments held for trading, trade receivables, trade payables and loans have short maturities and their carrying amounts approximate their fair values at the reporting date.

Term deposit relates to bank deposit with maturity 6 months.

The held-to-maturity investments consist of state bonds, state promissory note and a bank bond with remaining maturity up to 1 year. The Group has the ability and intends to hold these investments till maturity. The fair value of the held-to-maturity investments amounted to EUR 82,757 thousand at 31 December 2011 (2010: EUR 82,454 thousand). This value was established based on market values provided by banks who act as depositors of the securities.

If the interest rates of the held-to-maturity investments were 15 basis points higher/20 basis points lower and all other variables were held constant, the Group's profit for the year ended 31 December 2011 and equity at 31 December 2011 would increase/decrease by EUR 127 thousand/ EUR 170 thousand (2010: EUR 64 thousand/EUR 73 thousand).

Forward foreign exchange contracts

As of 31 December 2011 the Group was not a party to any foreign exchange forward contract.

As of 31 December 2010 the Group was a party to five foreign exchange forward contracts with maturity of one to five months to hedge anticipated future foreign currency expenditure in USD. While these contracts provided effective economic hedges under the Group's risk management policies, they did not qualify for hedge accounting under the specific rules of IAS 39 and were, therefore, classified as held for trading upon initial recognition.

The net gain from the change in the fair value of derivative instruments was recognized in the income statement in the amount of EUR 9 thousand, net of tax of EUR 2 thousand for the year ended 31 December 2010.

31. Audit fees

In 2011 the Group changed the audit company to PricewaterhouseCoopers Slovensko (2010: Ernst & Young Slovakia). In 2011 the Group obtained statutory audit services in amount of EUR 169 thousand (2010: EUR 424 thousand), other assurance services in amount of EUR 120 thousand (2010: EUR 189 thousand) and other services in amount of EUR 24 thousand (2010: EUR 43 thousand).

32. Events after the reporting period

The Group reported contingent liability in amount of EUR 29,377 thousand as at 31 December 2011as disclosed in Note 29. Further development of the case during the 2012 resulted in closing of the proceedings against the Group.

There were no other events, which have occurred subsequent to the year-end, which would have a material impact on the financial statements at 31 December 2011.

Independent auditor's report

pwc

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Slovak Telekom, a.s. ("the Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, 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.

PricewaterhouseCoopers Slovensko, s.r.o., Námestie 1. mája 18, 815 32 Bratislava, Slovak Republic
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The firm's ID No. (IČO): 35 739 347.
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 I, pod Vložkou č.: 16611/B, Oddiel: Sro.
The firm is registered in the Commercial Register of Bratislava I District Court, Ref. No.: 16611/B, Section: Sro.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 29 to the consolidated financial statements that describes current proceedings initiated by the European Commission against the Company and describes the potential implications thereof. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the consolidated financial statements. Our opinion is not qualified in respect of this matter.

PricewaterhouseCoopers Slovensko, s.r.o.
SKAU licence No.: 161
in Bratislava 15 March 2012

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

Ing. Eva Petrýdesová
SKAU licence No.: 934

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

Slovak Telekom, a.s.

Separate financial statements

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

for the year ended 31 December 2011

Contents

Income statement

for the year ended 31 December

thousands of EUR	Notes	2011	2010 restated
Revenue	5	867,742	669,468
Staff costs	6	(134,389)	(120,033)
Material and equipment		(76,643)	(50,816)
Depreciation, amortization and impairment losses	13,14	(232,111)	(178,891)
Interconnection and other fees to operators		(107,888)	(84,341)
Other operating income	8	14,187	13,733
Other operating costs	7	(191,994)	(158,044)
Operating profit		**138,904**	**91,076**
Financial income	9	7,826	6,968
Financial expense	10	(3,609)	(1,402)
Profit before tax		**143,121**	**96,642**
Taxation	11	(29,188)	(18,590)
Profit for the year		**113,933**	**78,052**

The financial statements on pages 99 to 131 were authorised for issue on behalf of the Board of Directors of the Company on 15 March 2012 by:

Ing. Miroslav Majoroš
Chairman of the Board of Directors
and Chief Executive Officer

Dr. Robert Hauber
Member of the Board of Directors
and Chief Financial Officer

Person responsible for accounting:

Ing. Mária Rokusová
Senior Manager of Shared Service Center

Preparer of the financial statements:

Ing. Vladimíra Richterová
Manager of Reporting and Accounting
Policies

Statement of comprehensive income

for the year ended 31 December

thousands of EUR	Notes	2011	2010
			restated
Profit for the year		**113,933**	**78,052**
Other comprehensive income			
Actuarial gains / (losses) on defined benefit plans	25	3,299	(616)
Deferred tax	11	(627)	117
Other comprehensive income for the year, net of tax		**2,672**	**(499)**
Total comprehensive income for the year, net of tax		**116,605**	**77,553**

Statement of financial position

as at 31 December

thousands of EUR	Notes	2011	2010
ASSETS			
Non-current assets			
Property and equipment	13	1,002,447	1,071,849
Intangible assets	14	384,457	377,341
Investments in subsidiaries	16	16,731	19,231
Held-to-maturity investments	29	-	39,266
Trade and other receivables	18	4,509	-
Prepaid expenses and other assets	20	17,847	22,417
		1,425,991	**1,530,104**
Current assets			
Inventories	17	11,192	13,645
Trade and other receivables	18	104,478	113,284
Prepaid expenses and other assets	20	6,533	16,018
Held-to-maturity investments	29	82,724	43,079
Loans	21	190,000	85,000
Term deposit over 3 months	29	-	60,000
Current income tax receivable		-	3,584
Cash and cash equivalents	22	172,414	163,298
		567,341	**497,908**
Assets held for sale	12	-	1,134
		567,341	**499,042**
TOTAL ASSETS		**1,993,332**	**2,029,146**
EQUITY AND LIABILITIES			
Shareholders' equity			
Issued capital	23	864,113	864,113
Share premium	23	386,139	386,139
Statutory reserve fund		159,240	130,629
Actuarial gains / (losses) on defined benefit plans		2,380	(292)
Retained earnings and profit for the year		232,334	286,481
		1,644,206	**1,667,070**
Non-current liabilities			
Provisions	25	9,912	11,682
Deferred tax	11	137,239	148,634
Other payables and deferred income	24	5,943	10,401
		153,094	**170,717**
Current liabilities			
Trade and other payables and deferred income	24	174,677	181,592
Provisions	25	5,414	9,767
Current income tax liability		15,941	-
		196,032	**191,359**
Total liabilities		**349,126**	**362,076**
TOTAL EQUITY AND LIABILITIES		**1,993,332**	**2,029,146**

Statement of changes in equity

for the year ended 31 December

thousands of EUR	Notes	Issued capital	Share premium	Statutory reserve fund	Actuarial (losses)/ gains on defined benefit plans	Retained earnings restated	Total equity restated
Year ended 31 December 2010							
As at 1 January 2010		864,113	386,139	91,071	207	147,910	1,489,440
Merger impact [a]	4		-	24,787		208,223	233,010
Profit for the year		-	-	-	-	78,052	78,052
Other comprehensive income		-	-	-	(499)	-	(499)
Total comprehensive income		**-**	**-**	**-**	**(499)**	**78,052**	**77,553**
Allocation to funds	23	-	-	14,771	-	(14,771)	-
Dividends	23	-	-	-	-	(132,933)	(132,933)
At 31 December 2010		**864,113**	**386,139**	**130,629**	**(292)**	**286,481**	**1,667,070**
Year ended 31 December 2011							
As at 1 January 2011		864,113	386,139	130,629	(292)	286,481	1,667,070
Profit for the year		-	-	-	-	113,933	113,933
Other comprehensive income		-	-	-	2,672	-	2,672
Total comprehensive income		**-**	**-**	**-**	**2,672**	**113,933**	**116,605**
Allocation to funds	23	-	-	28,611	-	(28,611)	-
Other changes in equity		-	-	-	-	(9,469)	(9,469)
Dividends	23	-	-	-	-	(130,000)	(130,000)
At 31 December 2011		**864,113**	**386,139**	**159,240**	**2,380**	**232,334**	**1,644,206**

a) As further described in Note 1 and Note 4, effective 1 July 2010 Slovak Telekom, a.s. ("Slovak Telekom") and T-Mobile Slovensko, a.s. ("T-Mobile") have been legally merged. Slovak Telekom became a legal successor of T-Mobile and consequently has taken over their assets and liabilities. Slovak Telekom has previously acquired control over T-Mobile in a transaction with a third party investor in 2004 in an acquisition of 49% interest that has changed the status of T-Mobile from a joint-venture to a subsidiary. Slovak Telekom used, for the purposes of accounting for the effects of the 2010 legal merger, retrospective predecessor values determined during the accounting for the business combination used in its 2004 IFRS consolidated financial statements (retrospective predecessor value method). The effect of using such values (after amortization where appropriate) is shown below. Applying the retrospective predecessor values for the purpose of legal merger led to recognition of goodwill in the separate financial statements due to the effect of such values on the share of assets and liabilities of T-Mobile attributable to the 51% ownership in T-Mobile by Slovak Telekom existing before the buy-out of the joint venture partners in 2004.

Retained earnings of Slovak Telekom were credited by the amount of EUR 208,223 thousand consisting of the following items:

thousands of EUR	
Share capital of T-Mobile	123,993
Retained earnings and current year profit of T-Mobile as of the merger date per T-Mobile stand alone financial statements (with assets and liabilities valued at historical cost to T-Mobile)	208,062
Increase in non-current assets due to use of retrospective predecessor values, net of deferred tax	170,446
Goodwill arising from the use of retrospective predecessor values (see above)	73,313
Removal of a provision for Universal service obligation, net of deferred tax (Note 4)	11,355
less: Financial investment of Slovak Telekom in T-Mobile	(378,946)
Net effect of the merger on retained earnings of Slovak Telekom	208,223

Statutory reserve fund of Slovak Telekom was increased by the balance of the statutory reserve fund of T-Mobile as of the merger effective date.

Statement of cash flows

for the year ended 31 December

thousands of EUR	Notes	2011	2010 restated
Profit for the year		**113,933**	**78,052**
Adjustments for:			
Depreciation, amortization and impairment losses	13,14	232,111	178,891
Interest income, net		(6,683)	(3,431)
Income tax expense	11	29,188	18,590
Gain on disposal of property and equipment	8	(996)	(361)
Impairment of investments in subsidiaries	16	2,500	-
Dividend income from group companies	9,27	(1,020)	(2,658)
Other non-cash items		(4,073)	(2,417)
Movements in provisions		(3,378)	2,003
Changes in working capital:			
Change in trade and other receivables		11,382	227
Change in inventories		4,366	(2,736)
Change in trade and other payables		(8,384)	6,613
Cash flows from operations		**368,946**	**272,773**
Income taxes paid		(19,463)	(24,711)
Net cash flows from operating activities		**349,483**	**248,062**
Investing activities			
Purchase of intangible assets, property and equipment		(173,200)	(105,415)
Proceeds from disposal of intangible assets, property and equipment		1,845	1,423
Acquisition of interest in subsidiary		-	(10,733)
Dividends received	27	1,020	103,362
Acquisition of held-to-maturity investments		(39,273)	(78,706)
Proceeds from disposal of held-to-maturity investments		39,559	56,211
Disbursement of intragroup loan		(170,000)	(110,000)
Repayment of borrowings		65,059	105,045
Termination / (acquisition) of short-term bank deposit		60,000	(60,000)
Interest received		4,624	2,462
Cash and cash equivalents transferred on merger		-	69,243
Net cash used in investing activities		**(210,366)**	**(27,108)**
Financing activities			
Dividends paid	23	(130,000)	(132,933)
Other charges paid		(1)	(35)
Net cash used in financing activities		**(130,001)**	**(132,968)**
Net increase in cash and cash equivalents		9,116	87,986
Cash and cash equivalents at 1 January	22	163,298	75,312
Cash and cash equivalents at 31 December	22	**172,414**	**163,298**

Notes to the financial statements

Index to the notes to the 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 Karadžičova 10, 825 13 Bratislava. The business registration number (IČO) of the Company is 35 763 469 and the tax identification number (DIČ) is 202 027 3893. On 4 August 2000, Deutsche Telekom AG (“Deutsche Telekom” or “DT AG”) gained control of the Company through the acquisition of 51% of the shares of Slovak Telekom. The transaction involved the purchase of existing shares from the National Property Fund of the Slovak Republic and the issue of new shares. The Slovak Republic retains 34% of the shares of the Company through the Ministry of the Economy of the Slovak Republic and the National Property Fund of the Slovak Republic retains 15% of the shares of the Company.

In December 2009, the Board of Directors of the Company approved the concept of the integration of Slovak Telekom, a. s. with its 100% subsidiary T-Mobile Slovensko, a. s. (“T-Mobile”) in line with the structural and organizational changes within the Deutsche Telekom Group. On 27 April 2010 the integration of the companies was approved by the General Meeting of the Company. As a result of this decision, T-Mobile was wound up without liquidation by means of an up-stream merger and all its assets, rights and obligations, including labour rights and duties, were transferred to Slovak Telekom as the legal successor as of 1 July 2010. Since October 2011 the Company operates on the market under one common brand name Telekom instead of two brand names T-Com and T-Mobile.

The Company is a leading supplier of fixed-line and mobile telecommunications services in the Slovak Republic and owns and operates significant telecommunications facilities therein. The Company provides national and international telephony services, broadband internet services, IPTV (Magio TV), satellite TV (Magio SAT), and a wide range of other telecommunications services including data networks, value added services and leased lines. It also provides residential and business customers with products ranging from standard telephones to computer communications networks. The Company provides mobile telephony services in the 900 MHz and 1800 MHz frequency bands under the Global System for Mobile Communications standard (“GSM”) and in the 2100 MHz frequency band under the Universal Mobile Telecommunications System standard (“UMTS”), hereinafter referred to as “mobile services”. The Company uses the 450 MHz frequency band to provide wireless broadband internet access under the Flash-OFDM standard and provides Managed Data Network Services. The Company also launched Fixed Wireless Access (FWA), utilizing the 26 GHz/28 GHz frequency bands.

The general license granted by the Telecommunications Office of the Slovak Republic for the provision of mobile services under the 900 MHz, 1800 MHz and 450 MHz frequency bands is valid up to 31 August 2021. The UMTS license is valid up to 31 August 2026. The 26 GHz/28 GHz frequency licenses were granted by the Telecommunications Office of the Slovak Republic and are valid up to December 2017.

Members of the Statutory Boards as at 31 December 2011

Board of Directors

Chair:	Ing. Miroslav Majoroš
Vice-chair:	Ing. Martin Mác
Member:	Dr. Robert Hauber
Member:	Albert Pott
Member:	Dr. Ralph Rentschler
Member:	Ing. Miloš Šujanský M.B.A.
Member:	Ing. Róbert Sándor

Supervisory Board

Chair:	Dr. Hans-Peter Schultz
Vice-chair:	Ing. Katarína Lešková
Member:	Ing. Július Maličký
Member:	Milan Brlej
Member:	Ing. Ján Vozár
Member:	Ing. Ján Hláčik
Member:	Ing. Miroslav Galamboš
Member:	Cornelia Elisabeth Sonntag
Member:	Tanja Wehrhahn

In 2011 a number of changes were entered in the Commercial Register: Mr. Szabolcs Gáborjáni-Szabó left the Board of Directors in April 2011 and was replaced by Mr. Robert Hauber. In addition, the Chair Mr. Andreas Hesse left the Supervisory Board in November 2011 and was replaced by Mr. Hans-Peter Schultz, who was a member of Supervisory Board until the replacement. The member position of Mr. Hans-Peter Schultz was replaced by Ms. Tanja Wehrhahn.

Deutsche Telekom AG, with its registered office at Friedrich Ebert Allee 140, Bonn, Germany, is the parent of the group of which the Company is a member and for which the group financial statements are drawn up. The 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.

2.1 Basis of preparation

The financial statements have been prepared on a historical cost basis, 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 when otherwise indicated.

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

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 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 2011 have been prepared in compliance with International Financial Reporting Standards as adopted by the European Union. The consolidated financial statements are available at the Company's registered office or at the Register Court administering the Commercial Register of District Court Bratislava I, Slovak Republic.

2.2 Property and equipment

Property and equipment, except for land, is carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. The cost of property and equipment acquired in a business combination is their fair value as at the date of acquisition. 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 recognized as a provision according to IAS 37.

Cost includes all costs directly attributable to bringing the asset into working condition for its use as intended by the management. In the case of the network, this comprises all expenditures, including internal costs directly attributable to network construction, and includes contractors' fees, materials and direct labour. No borrowing costs were capitalized during 2010 or 2011. The cost of subsequent enhancement is included in the asset's carrying amount or recognized 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. Maintenance, repairs and minor renewals are charged to the income statement as incurred.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the period the asset is derecognized. 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, so as to write down their cost to their estimated residual values over their useful lives. The depreciation charge is identified separately for each significant part of an item of property and equipment.

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

Buildings and masts	50 years
Other structures	5 to 15 years
Duct, cable and other outside plant	8 to 50 years
Telephone exchanges and related equipment	4 to 30 years
Radio and transmission equipment	8 years
Other fixed assets	13 months to 30 years

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

The assets' residual values and useful lives are reviewed and adjusted in accordance with IAS 8, where 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.

Property and equipment are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized 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 recognising the original impairment loss no longer apply.

When property and equipment meet the criteria to be classified as held for sale, they are measured at the lower of their carrying amount and fair value less costs to sell and are reclassified from non-current to current. Property and equipment once classified as held for sale are not depreciated.

2.3 Intangible assets

Intangible assets acquired separately are recognized when control over them is assumed and are initially measured at 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 amortization and any accumulated impairment losses. Intangible assets are assessed for impairment whenever there is an indication that they may be impaired. With the exception of goodwill, intangible assets have a finite useful life and are amortized using the straight-line method over the useful life. 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
Licenses	5 to 16 years
Customer contracts	8 to15 years

Any gain or loss arising on derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and are included in the income statement in the period the asset is derecognized.

Computer software and licenses

Development costs directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognized 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 capitalized as part of the software product include the software development employee costs. Other development expenditures that do not meet recognition criteria and costs associated with maintaining computer software programs are recognized as an expense as incurred.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Cost comprises all directly attributable costs necessary to create, produce and prepare the software to be capable of operating in the manner intended by management, including enhancements of applications in use. Cost also includes borrowing costs when those costs are incurred, if the recognition criteria are met.

Costs associated with the acquisition of long term frequency licenses are capitalized. The useful lives of concessions and licenses are determined based on the underlying agreements and are amortized on a straight-line basis over the period from availability of the frequency for commercial use until the end of the initial concession or license term. No renewal periods are considered in the determination of useful life.

Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the group's net identifiable assets acquired and liabilities assumed. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortized but reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired (Note 15).

2.4 Investments in subsidiaries

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

2.5 Impairment of non-financial assets

Assets that are subject to depreciation or amortization are reviewed for impairment at each reporting date whenever events or circumstances indicate that the carrying amount may not be recoverable. Assets with indefinite useful life are tested for impairment annually. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The Company determines the recoverable amount of a cash-generating unit on the basis of its value in use. The value in use 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 five-year period, and used for internal purposes. Cash flows beyond the detailed planning periods are extrapolated using appropriate growth rates. Key assumptions on which management bases the determination of value in use include average revenue per user, customer acquisition and retention costs, churn rates, capital expenditures, market share, growth rates and discount rates. The discount rate used reflects the risk specific to the cash-generating unit. Cash flows used reflect management assumptions and are supported by external sources of information.

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

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

Phone sets are often sold for less than cost in connection with promotions to obtain new subscribers with minimum commitment periods. Such loss on the sale of equipment is only recorded when the sale occurs if the normal resale value is higher than the cost of the phone set. If the normal resale value is lower than costs, the difference is recognized as impairment immediately.

2.7 Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand, short-term deposits with an original maturity of three months or less from the date of acquisition and short term bonds and promissory notes with high liquidity.

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

2.8 Financial assets

The Company classifies its financial assets in the following categories: loans and receivables, financial assets at fair value through profit or loss and held-to-maturity investments. 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. When financial assets are recognized, they are initially measured at fair value, plus, in the 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 recognized 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 derecognized 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.

Loans and other receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise "Loans" and "Trade and other receivables".

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 end of the reporting period. Trade and other recievables are initially recognized at fair value and subsequently measured at amortized cost, using the effective interest method, less provision for impairment. For the purpose of an impairment testing the estimated cash flows are based on the past experience of the collectibility of overdue receivables. The recognized allowance for impairment reflects the estimated credit risk.

When the trade receivable for which an allowance was recognized becomes uncollectible or sold, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against costs in the income statement.

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Derivatives are also classified as held for trading. Gains or losses on assets held for trading are recognized in the income statement within financial expense or financial income.

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

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Company has the positive intention and ability to hold them to maturity. After initial recognition held-to-maturity investments are measured at amortized cost using the effective interest method. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the investments are derecognized or impaired.

2.9 Impairment of financial assets

The Company assesses at each reporting date whether there is objective evidence that a financial asset 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 are recognized in the income statement against allowance accounts to reduce the carrying amount until derecognition of the financial asset when the net carrying amount (including any allowance for impairment) is derecognized from the statement of financial position. Any gains or losses on derecognition are calculated and recognized as the difference between the proceeds from disposal and the net carrying amount derecognized and are presented in the income statement.

2.10 Financial liabilities

There are two measurement categories for financial liabilities used by the Company: financial liabilities carried at amortized costs represented by trade and other payables and financial liabilities at fair value through profit or loss. A financial liability is derecognized 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 amortized cost using the effective interest 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 as 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 recognized in profit or loss.

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

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 recognized at their net present value and amortized over their expected duration. Amortization of easement rights is presented within other operating costs in the income statement.

2.12 Provisions and contingent liabilities

Provisions are recognized 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 a reliable estimate can be made of the amount of the obligation.

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

No provision is recognized 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 recognized 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 amount of the asset retirement obligation initially recognized in the period in which incurred is considered as an element of the cost of the related non-current asset in accordance with IAS 16. The obligation is accreted to its present value each period, and the capitalized cost is depreciated over the estimated useful life of the related non-current asset. Upon settlement of the liability, the Company either settles the obligation for its recorded amount or incurs a gain or loss upon settlement.

Customer loyalty program

Members of the loyalty program, which was operated by the Company until the end of 2011, could have collected loyalty points for certain behaviour (e.g. for arranging a direct debit facility, activation of electronic bill, etc.) that were in no way related to a sales transaction. Such loyalty points were outside the scope of IFRIC 13 and the Company recognized a provision against other operating costs in accordance with IAS 37 at the time when those points had been granted. Amount of provision was measured at the amount necessary to settle expected liability to participants of the loyalty program. For the accounting policy regarding the loyalty points gained from sales transaction refer to Note 2.14.

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.

In the case of defined contribution plans, the Company pays contributions to publicly or privately administered pension or severance insurance plans on a mandatory or contractual 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 benefits. These benefits are unfunded. The costs of providing benefits are determined separately for each benefit using the projected unit credit actuarial valuation method. The defined benefit liability comprises the present value of the defined benefit obligation less past service costs not yet recognized. The discount rate is determined using the weighted-average yields for high-quality (Bloomberg Aa*), non-cancellable, non-putable corporate bonds. The currency and term of the bonds are consistent with the currency and estimated term of the benefit obligations. The past service costs are recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits become vested immediately following the introduction of, or changes to, a benefit plan, past service costs are recognized immediately.

Actuarial gains and losses arising from experience-based adjustments and changes in actuarial assumptions are recognized in the period in which they occur, within other comprehensive income for retirement benefits and within the income statement for jubilee benefits.

Termination benefits

Employee termination benefits are recognized in the period when a detailed plan listing the number and structure of employees to be discharged is defined and authorised by management and announced to the trade unions.

2.14 Revenue recognition

Revenue is recognized 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 and the revenue can be measured reliably. Revenue for rendering services and customer equipment sales 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 revenues are recognized when the services are provided in accordance with contractual terms and conditions. Airtime revenue is recognized based upon minutes of use and contracted fees less credits and adjustments for discounts, while subscription and flat rate revenues are recognized in the period they relate to.

Revenues from prepaid cards are recognized when used by a customer or when the credits expire with unused traffic.

Interconnect revenue generated from calls and other traffic that originate in other operators' networks is recognized 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. These charges are recorded within Interconnection and other fees to operators.

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

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

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

Activation fees and subscriber acquisition costs
Activation fees are deferred over the expected customer retention period. This period is estimated on the basis of the anticipated term of the customer relationship under the arrangement which generated the activation fee. Subscriber acquisition costs primarily include the loss on the handsets and fees paid to subcontractors that act as agents to acquire new customers. Subscriber acquisition costs are expensed as incurred.

Deferred income – Customer loyalty program
The Company has operated the customer loyalty program until 2011. As part of the program, the Company has granted points to the participants, which could be redeemed in future periods for free or discounted goods or services. Revenue allocated to the points granted in sale transaction based on their fair value was deferred when points were granted to customers. Revenue was recognized when the customers received benefits from the program.

IT revenues
Contracts for network services, which consist of the installation and operation of communication networks for customers, have an average duration of 2 to 3 years. Revenues for voice and data services are recognized under such contracts when used by the customer. Revenue from system integration contracts requiring the delivery of customized products and/or services is recognized when the customized complex solution is being delivered and accepted by a customer.

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

Revenue from hardware and software sales or sales-type leases is recognized when the risk of ownership is substantially transferred to the customer, provided there are no unfulfilled obligations that affect the customer's final acceptance of the arrangement. Any costs of these obligations are recognized when the corresponding revenue is recognized.

Interest and dividends
Interest income is recognized using the effective interest method. Dividend income is recognized when the right to receive payment is established.

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

Leases of assets in which a significant portion of the 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 the period of the lease.

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

The contracts are analyzed based on the requirements of IFRIC 4, and if they include embedded lease elements, the revenues attributable to these are recognized according to 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 recognized as revenue 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 benefits and risks of ownership are recognized and disclosed as revenue against a finance lease receivable. The revenue equals the estimated present value of the future minimum lease payments receivable and any unguaranteed residual value (net investment in the lease). The cost of the asset sold in a finance lease transaction is recognized at the commencement of the lease. Each lease receipt is then allocated between the receivable and interest income so as to achieve a constant rate of return on the finance receivable balance outstanding. The interest element of the lease receipt is recognized in interest income.

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

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

2.17 Foreign currency translation
Transactions denominated in foreign currencies are translated into functional currency using the exchange rates prevailing at the date of the 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 recognized within financial income or expense in the period in which they arise.

2.18 Taxes

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

Current income tax

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. The tax rates and tax laws used to calculate the amounts are those substantively enacted at the statement of financial position date.

Deferred tax

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

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

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

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to 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 revenues 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 recognized 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 amortization period, as appropriate, and are treated as changes in accounting estimates. Management's estimates and judgements are inherently prone to inaccuracy for those assets for which no previous experience exists.

The Company reviewed useful lives of non-current assets during 2011 and changed accounting estimates where appropriate. The table summarizes net (decrease) / increase in depreciation charge for the following categories of fixed assets:

thousands of EUR	2011	2012	2013	2014	After 2014
Radio base stations	(1,165)	(1,689)	(879)	(623)	(640)
Equipment and special equipment	3,998	3,810	1,715	1,676	1,277
Switching equipment - mobile network	403	1,132	-	-	-
Other (buildings, halls and other equipment)	64	181	45	22	44

Customer relationships

The Company maintains record of customer relationships obtained during the acquisition of control of T-Mobile and regularly evaluates appropriatness of useful lives used to amortize these intangible assets on the basis of churn of customers acquired through the business combination.

Easements

On disposal of certain properties where technological equipment is sited and required for the Company's operations, the Company enters into agreements to obtain easement rights to continue to use and access this equipment for extended periods. Management has determined, based on an evaluation of the terms and conditions of these sales agreements, that the Company does not retain the significant risks and rewards of ownership of the properties and accounts for easements as a prepaid expense.

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 15.

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 construction of a mast, which is estimated to be 50 years. The remaining useful life of masts ranges from 31 to 50 as at 31 December 2011. Management's determination of the amount of the asset retirement obligation (Note 25) 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.

Provisions and contingent liabilities

As set out in Notes 25 and 28, 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 estimates the amount needed to settle the possible or probable obligation. Such judgements and estimates are continually reassessed taking into consideration experience with similar cases.

2.20 Comparatives

Comparative information related to presentation of impact of the legal merger of Slovak Telekom and T-Mobile (Note 4) has been retrospectively restated as management believes that a more appropriate presentation of this common control transaction is to record its impact directly in equity. In 2010 merger impact from retained earnings and profit for the accounting period ending 30 June 2010 of T-Mobile of EUR 208,062 thousand was recorded in the income statement. The affected line items of the comparative information in the Income statement, the Statement of comprehensive income, the Statement of changes in equity and the Statement of cash flows, financial income and taxation are set out below.

thousands of EUR	2010 restated	2010 reported
Income statement		
Financial income	6,968	215,030
Profit before tax	96,642	304,704
Profit for the year	78,052	286,114
Statement of comprehensive income		
Profit for the year	78,052	286,114
Total comprehensive income for the year, net of tax	77,553	285,615
Statement of changes in equity		
Retained earnings		
Merger impact	208,223	161
Profit for the year	78,052	286,114
Total comprehensive income	78,052	286,114
Total equity		
Merger impact	233,010	24,948
Profit for the year	78,052	286,114
Total comprehensive income	77,553	285,615
Statement of cash flows		
Profit for the year	78,052	286,114
Adjustment for: Merger impact	-	208,062
Financial income (Note 9)		
Merger impact	-	208,062
Total financial income	6,968	215,030
Taxation (Note 11)		
Profit before income tax	96,642	304,704
Income tax calculated at the statutory rate of 19%	18,362	57,894
Merger impact	-	(39,532)

Restatement of merger impact has no effect on balances in the statement of financial position as of 1 January 2010, therefore no opening statement of financial position as at 1 January 2010 is presented in these financial statements.

In addition, the following comparative information has been reclassified in order to conform to the current year presentation:

a) Balance of trade receivables from subsidiaries of EUR 63 thousand is disclosed at separate line (Note 18) in the 2010 comparatives. In the 2010 Note 18 this item was presented within Trade receivables from related parties.

b) Balance of trade payables to subsidiaries of EUR 2,649 thousand is disclosed at separate line (Note 24) in the 2010 comparatives. In the 2010 Note 23 this item was presented within Trade and other payables to related parties.

c) Balance of earn-out payable to the former owner of PosAm amounting to EUR 2,378 thousand is disclosed in Non-current other payables (Note 24) in the 2010 comparatives. In the 2010 Note 24 this item was presented within Non-current provisions. The reclassification was reflected also in the statement of cash flows. Balance of EUR 143 thousand is disclosed in Interest income, net in the 2010 comparatives. In the 2010 statement of cash flows this item was presented within Movements in provisions.

d) Balance of other telecommunication services of EUR 1,898 thousand is disclosed in Content fees (Note 7) in the 2010 comparatives. In the 2010 Note 7 this item was presented within Other operating costs.

e) Balance of other fees to Telecommunications Office of EUR 526 thousand is disclosed in Frequency and other fees to Telecommunications Office (Note 7) in the 2010 comparatives. In the 2010 Note 7 this item was presented within Other operating costs.

f) Balance of fees paid to parent company of EUR 776 thousand is disclosed in Fees paid to DT AG (Note 7) in the 2010 comparatives. In the 2010 Note 7 this item was presented within Other operating costs.

Reclassification of balances has no impact on balances in the statement of financial position as of 1 January 2010, therefore no opening statement of financial position as at 1 January 2010 is presented in these financial statements.

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 2011

- IAS 24 Related Party Disclosures (Revised), effective for periods beginning on or after 1 January 2011

  The definition of a related party has been clarified to simplify the identification of related party relationships, particularly in relation to significant influence and joint control. A partial exemption from the disclosures has been included for government-related entities, whereby the general disclosure requirements of IAS 24 will not apply. Instead, alternative disclosures have been included, requiring:

  - The name of the government and the nature of its relationship with the reporting entity;
  - The nature and amount of individually significant transactions;
  - A qualitative or quantitative indication of the extent of other transactions that are collectively significant.

Retrospective application in line with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The Slovak Government has significant influence on the Company through 49% shareholding. The German Federal Government has significant influence on Deutsche Telekom AG, the ultimate parent of the Company. The Company used a partial exemption available for the government related entities and provided alternative simplified disclosures (Note 27).

- Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues, effective for annual periods beginning on or after 1 February 2010

  The definition of a financial liability has been amended to classify rights issues (and certain options or warrants) as equity instruments if:

  - The rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments;
  - The rights are to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

  Retrospective application in line with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

  The changes resulting from the amendment to IAS 32 are not relevant for the Company.

- Improvements to IFRS issued in May 2010, effective for annual periods beginning on or after 1 July 2010 and 1 January 2011 concern the following standards:

  - IFRS 1 First-time Adoption of International Financial Reporting Standards

    The standard is not relevant for the Company.

  - IFRS 3 Business Combinations

    - Clarifies that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3.

    - Requires measurement of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation at fair value (unless another measurement basis is required by other IFRS standards).

    - Provides guidance on the acquiree's share-based payment arrangements that were un-replaced and voluntarily replaced as a result of a business combination.

    The amendment is not relevant for the Company's separate financial statements.

  - IFRS 7 Financial Instruments Disclosures
    - Amended disclosure requirements emphasize the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments.

    The amendment is relevant for the Company and is applied as required by IFRS 7.

    - Removes the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired.

    The amendment is not relevant for the Company.

    - Replaces the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect.

    The amendment is not relevant for the Company.

    - Clarifies that an entity should disclose the amount of foreclosed collateral held at the reporting date, and not the amount obtained during the reporting period.

    The amendment is not relevant for the Company.

  - IAS 1 Presentation of Financial Statements

    - Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

    The amendment is relevant for the Company and has already been adopted by the Company in its previous year's financial statements.

  - IAS 27 Consolidated and Separate Financial Statements

    - Clarifies prospective application of consequential amendments to IAS 21, IAS 28 and IAS 31 that result from changes to IAS 27.

    The amendment is not relevant for the Company.

  - IAS 34 Interim Financial Reporting

    The standard is not relevant for the Company.

  - IFRIC 13 Customer Loyalty Programmes

    - The meaning of 'fair value' is clarified in the context of measuring award credits under customer loyalty programmes.

    The amendment is relevant for the Company. Fair value used conforms to the IFRIC 13 definition.

  The above amendments resulted in additional or revised disclosures, but had no material impact on measurement or recognition of transactions and balances reported in these financial statements.

- Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, effective for annual periods beginning on or after 1 July 2010

  The amendment is not relevant for the Company.

- Amendment to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (Prepayments of a Minimum Funding Requirement), effective for annual periods beginning on or after 1 January 2011

The amendment is not relevant for the Company.

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments, effective for annual periods beginning on or after 1 July 2010

  The amendment is not relevant for the Company.

Standards, interpretations and amendments to published standards that have been published, are not effective for accounting periods starting on 1 January 2011 and which the Company has not early adopted

- Transfers of Financial Assets, Amendments to IFRS 7 Financial Instruments: Disclosures, effective for annual periods beginning on or after 1 July 2011

  The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognized, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood.

- IFRS 9 Financial Instruments, Part 1: Classification and Measurement, effective for annual periods beginning on or after 1 January 2015

  IFRS 9, issued in November 2009, replaces those parts of IAS 39 Financial Instruments: Recognition and Measurement, relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features of the standard are as follows:

  - Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortized cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

  - An instrument is subsequently measured at amortized cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

  - All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
  - Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

  While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted.

- IFRS 10 Consolidated Financial Statements, effective for annual periods beginning on or after 1 January 2013

  IFRS 10 replaces all of the guidance on control and consolidation in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special-purpose Entities. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance.

- IFRS 11 Joint Arrangements, effective for annual periods beginning on or after 1 January 2013

  IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities - Non-Monetary Contributions by Venturers. Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures.

- IFRS 12 Disclosures of Interests in Other Entities, effective for annual periods beginning on or after 1 January 2013

  IFRS 12 applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28, Investments in associates. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities.

- IFRS 13 Fair Value Measurement, effective for annual periods beginning on or after 1 January 2013

  IFRS 13 aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs.

- Amendment to IAS 1 Presentation of Financial Statements – Presentation of items of other comprehensive income, effective for annual periods beginning on or after 1 July 2012

  The amendment changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'Statement of profit or loss and other comprehensive income'.

- IAS 19 (Revised) Employee Benefits, effective for annual periods beginning on or after 1 January 2013

  The amendment makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) re-measurements in other comprehensive income.

- IAS 27 (Revised) Separate Financial Statements, effective for annual periods beginning on or after 1 January 2013

  IAS 27 was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements.

- IAS 28 (Revised) Investments in Associates and Joint Ventures, effective for annual periods beginning on or after 1 January 2013

  The amendments to IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged.

- Improvements to IFRS (IFRS 1 First-time Adoption of IFRS, IAS 1 Presentation of Financial Statements, IAS 16 Property, Plant and Equipment, IAS 32 Financial Instruments: Presentation, IAS 34 Interim Financial Reporting), effective for annual periods beginning on or after 1 January 2013.

- Other revised standards and interpretations:

  The amendments to IFRS 1 First-time adoption of IFRS, relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, will not have any impact on these financial statements. The amendment to IAS 12 Income Taxes, which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, will not have any impact on these financial statements. IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine, considers when and how to account for the benefits arising from the stripping activity in mining industry.

The future implications of standards, interpretations and amendments that are relevant to the Company are being continuously evaluated and will be applied in accordance with the requirements if applicable.

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, short-term deposits, held-to-maturity investments and loans. 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 receivables and trade payables which arise from its operations.

The Company enters into derivative transactions. The purpose is to manage the foreign currency risk arising from the Company's operations. The Company does not perform speculative trading with the derivative instruments.

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

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.

The Company can use forward currency contracts, currency swaps or spot-market trading to eliminate the exposure towards foreign currency risk. Hedging financial instruments must be in the same currency as the hedged item. It is the Company's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximize hedge effectiveness. Such a hedge however does not qualify for hedge accounting under the specific rules of IAS 39.

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 50 thousand.

In 2010 and 2011, the Company entered into currency forward contracts to hedge its foreign currency exposure arising on its firm commitments for future capital and operating expenditures. The forward contracts are expected to mature on the date of the anticipated foreign currency cash expenditures. The Company's main exposure is to 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 EUR against USD, 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		2011	2010
Profit before tax	Depreciation of EUR by 10%	(117)	146
	Appreciation of EUR by 10%	96	(120)
Equity	Depreciation of EUR by 10%	(95)	118
	Appreciation of EUR by 10%	78	(97)

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 provides loans to DT AG (Note 21).

The Company's exposure to the risk of changes in market interest rates relates mainly to the Company's held–to-maturity investments. The Company seeks to optimize its exposure towards interest rate risk using a mix of fixed–rate and floating–rate securities. At the end of 2011, the securities portfolio consists of fixed-rate bonds and one treasury bill.

The sensitivity of held-to-maturity investments to changes in interest rates is detailed in Note 29.

3.1.3 Other price risk

Other price risk arises on financial instruments because of changes in, for example commodity prices or equity prices. The Company is not exposed to such risks.

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 and securities issuers on the basis of the credit ratings assigned to these institutions by reputable rating agencies and these limits are reviewed on a regular basis. For credit ratings see Notes 21 and 22.

The Company establishes an allowance for impairment that represents its estimate of losses incurred in respect of trade and other receivables. Impairment losses are recognized 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, as well as changes in the internal and external ratings of customers.

In respect of financial assets, which comprise cash and cash equivalents, short-term deposits, held-to-maturity investments, derivative financial instruments, loans and trade 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. In June 2011 the Company and Poštová banka, a.s. signed an Agreement about establishment of a right of lien on securities. The Company thus secured its receivables to maximum principal amount of EUR 50,000 thousand. In total, Poštová banka pledged 16,880 pieces of the state bond SK4120004565 with a nominal value of EUR 56,000 thousand. No other significant agreements reducing the maximum exposure to credit risk had been concluded at 31 December 2011.

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 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 recognized 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 recognized. The reversal of the impairment loss is recognized in profit or loss.

The table summarises the ageing structure of receivables:

thousands of EUR

At 31 December 2011	Neither past due nor impaired	Past due but not impaired				
		< 30 days	31-90 days	91-180 days	181-365 days	> 365 days
Trade receivables	83,263	388	268	151	581	116
Finance lease receivable	6,063	-	-	-	-	-

At 31 December 2010	Neither past due nor impaired	Past due but not impaired				
		< 30 days	31-90 days	91-180 days	181-365 days	> 365 days
Trade receivables	91,174	615	78	19	39	91

No significant individually impaired trade receivables were included in the provision for impairment losses in 2011 and 2010.

Trade receivables that are past due as at the statement of financial position date, but not 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.

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 and held-to-maturity investments 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

At 31 December 2011	On demand	Less than 3 months	3 to 12 months	Over 1 year	Total
Trade payables	4,057	99,986	253	-	104,296
Contingent consideration (earn-out)	-	-	2,438	-	2,438

At 31 December 2010	On demand	Less than 3 months	3 to 12 months	Over 1 year	Total
Trade payables	5,505	104,863	15	-	110,383
Contingent consideration (earn-out)	-	-	-	2,378	2,378

3.4 Capital risk management

The Company manages its capital to ensure its ability to support its business activities on an ongoing basis, while maximizing the return to its shareholders and benefits for other stakeholders through optimization of its capital structure to reduce the cost of capital. It takes into consideration any applicable guidelines of the majority shareholder. No changes were made to the objectives, policies or processes in 2011.

The capital structure of the Company consists of equity attributable to shareholders, comprising issued capital, share premium, statutory reserve fund, retained earnings and other components of equity (Note 23). The management of the Company manages capital measured in terms of shareholder's equity amounting to as at 31 December 2011 EUR 1,644,206 thousand (2010: EUR 1,667,070 thousand).

4. Slovak Telekom and T-Mobile Slovensko (merger)

T-Mobile ceased to exist as a legal entity with effect from 1 July 2010 and was wound up without liquidation as of 30 June 2010 on the basis of a merger agreement concluded between Slovak Telekom and T-Mobile. On 17 June 2010, the merger agreement was approved by the sole shareholder of T-Mobile and by the extraordinary General Meeting of Slovak Telekom. At the same time, the agreement was signed by the members of the Board of Directors of both companies.

As of the date of registration of the merger in the Commercial Register, assets and liabilities of T-Mobile passed to Slovak Telekom, which became the universal legal successor. The share capital of Slovak Telekom of EUR 864,113 thousand remained unchanged upon the merger.

To achieve a true and fair presentation of the merger, the assets and liabilities of T-Mobile were recognized at their carrying values as if presented in the consolidated financial statements of Slovak Telekom at 30 June 2010 (see also Note (a) under the Statement of changes in equity).

For the purposes of the preparation of statement of financial position, the Company assumed the following transactions:

Equity: Share capital of T-Mobile of EUR 123,993 thousand was assumed in full as the retained earnings of Slovak Telekom. The statutory reserve fund of T-Mobile of EUR 24,787 thousand was assumed in full as the statutory reserve fund of Slovak Telekom. Retained earnings and profit for the accounting period ending 30 June 2010 of T-Mobile of EUR 208,062 thousand were assumed in full in the retained earnings of Slovak Telekom (Note 2.20).

Financial investments: The financial investment in T-Mobile of EUR 378,946 thousand was eliminated from Slovak Telekom's statement of financial position and the retained earnings of Slovak Telekom were reduced by the same amount.

Non-current assets: The non-current assets were recognized to Slovak Telekom's statement of financial position with reference to the carrying values as if presented in the consolidated financial statements of Slovak Telekom at 30 June 2010. Non-current assets were increased by EUR 210,427 thousand (T-Mobile customer lists, brand, radio and switching equipment), at the same time, the related deferred tax liability of EUR 39,981 thousand was recorded, and goodwill of EUR 73,313 thousand recognized. The double entry for these transactions was the retained earnings of the Company. Assets of EUR 37,394 thousand were reclassified from property and equipment to intangible assets.

Mutual receivables and liabilities: Mutual receivables and liabilities of T-Mobile and Slovak Telekom were eliminated in the statement of the financial position.

Provisions: The provision for the "Universal Service Obligation" of EUR 14,020 thousand and related deferred tax receivable of EUR 2,665 thousand created by T-Mobile was released through retained earnings in Slovak Telekom's statement of financial position. The provision was originally recognized by T-Mobile to cover the risk of potential payments to Slovak Telekom to contribe to Slovak Telekom's costs related to Universal Service Obligation. The risk ceased to exist through the merger.

Other: Valuation allowances to assets, provisions, accruals and prepayments were assumed in full by Slovak Telekom and recognized in the same amount and structure.

The comparative information presented in the income statement for the year ended 31 December 2010 does not include income and expenses of mobile business (former T-Mobile) for the first six months of the year 2010. Therefore, the 2010 comparative data are not entirely comparable.

The transfer of assets, liabilities and equity of T-Mobile as at 1 July 2010 was performed in the following amounts:

thousands of EUR	1 July 2010
ASSETS	
Non-current assets	
Property and equipment (Note 13)	204,515
Intangible assets (Note 14)	286,861
Goodwill (Note 14)	73,313
Held-to-maturity investments	13,144
Prepaid expenses and other assets	1,481
	579,314
Current assets	
Inventories	5,616
Trade and other receivables	60,224
Prepaid expenses and other assets	5,315
Held-to-maturity investments	14,824
Income tax	1,730
Derivatives	43
Cash and cash equivalents	69,243
	156,995
TOTAL ASSETS	**736,309**
EQUITY AND LIABILITIES	
Shareholders' equity	
Share capital	-
Statutory reserve fund	24,787
Retained earnings and other components of equity	587,169
	611,956
Non-current liabilities	
Provisions	8,241
Deferred tax	48,203
Other payables and deferred income	987
	57,431
Current liabilities	
Trade and other payables	49,779
Deferred income and other liabilities	13,612
Provisions	3,531
	66,922
Total liabilities	**124,353**
TOTAL EQUITY AND LIABILITIES	**736,309**

5. Revenue

thousands of EUR	2011	2010
Voice services	141,828	168,685
Content services	11,257	13,792
Terminal equipment	10,211	9,113
Data services	45,231	50,621
Fixed network communication revenue	**208,527**	**242,211**
Wholesale revenue	70,116	66,971
IP / Internet revenue	96,204	92,756
Total fixed network and broadband revenue	**374,847**	**401,938**
Mobile communication revenue	462,400	247,978
Other revenue	30,495	19,552
Total revenue	**867,742**	**669,468**

6. Staff costs

thousands of EUR	2011	2010
Wages and salaries	107,574	95,948
Social security contributions	26,815	24,085
	134,389	**120,033**

	2011	2010
Number of employees at period end	**3,871**	**4,650**

Number of employees does not include expatriates working for the Company as of 31 December 2011: 3 (2010: 4).

7. Other operating costs

thousands of EUR	2011	2010
Repairs and maintenance	22,183	16,078
Outsourced services	11,752	13,004
Marketing	23,538	23,451
Energy	16,509	11,936
Postal services	4,934	5,579
Rentals and leases	18,612	13,722
IT services	12,584	10,178
Dealers' commissions	20,746	15,887
Material sold	2,865	3,862
Business trips and training	2,283	1,702
Frequency and other fees to Telecommunications Office (Note 27)	7,353	3,854
Content fees	15,745	11,614
Consultancy	10,038	8,109
Bad debts expenses	2,908	3,597
Customer solutions	9,732	9,456
Fees paid to DT AG	4,658	776
Other	18,548	20,102
Own work capitalized	(12,994)	(14,863)
	191,994	**158,044**

8. Other operating income

thousands of EUR	2011	2010
Gain on disposal of property and equipment, net	996	361
Income from material sold	4,855	5,780
Income from termination of loyalty program	2,167	-
Reversal of impairment of assets (Note 12,13)	290	4,146
Other	5,879	3,446
	14,187	**13,733**

9. Financial income

thousands of EUR	2011	2010
		restated
Dividends from subsidiaries (Note 27)	1,020	2,658
Reversal of impairment of held-to-maturity investments	-	664
Interest on short-term deposits	1,681	466
Interest on intragroup loans	2,777	1,458
Interest on held-to-maturity investments	1,352	877
Interest from finance lease	121	-
Other	875	845
	7,826	**6,968**

10. Financial expense

thousands of EUR	2011	2010
Impairment of intragroup loan	-	289
Impairment of investments in subsidiaries (Note 16)	2,500	-
Impairment of held-to-maturity investments	199	-
Change in fair value of earn-out payable (Note 24)	60	143
Employee benefits - interest cost	377	93
Foreign exchange losses, net	173	464
Net loss on financial instruments held for trading	53	110
Interest cost on restoration obligations	182	231
Bank charges and other financial expense	65	72
	3,609	**1,402**

11.Taxation

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

thousands of EUR	2011	2010
Current tax expense	41,210	25,006
Deferred tax income	(12,022)	(6,416)
Income tax expense reported in the income statement	**29,188**	**18,590**

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	2011	2010 restated
Profit before income tax	143,121	96,642
Income tax calculated at the statutory rate of 19% (2010: 19%)	27,193	18,362
Effect of income not taxable and expenses not tax deductible:		
Dividends	(194)	(505)
Creation / (release) of legal and regulatory provisions	67	(107)
Other tax non-deductible items, net	2,024	884
Tax charge / (recovery) in respect of prior years	98	(44)
Income tax at the effective tax rate of 20% (2010: 19%)	**29,188**	**18,590**

Deferred tax assets (liabilities) for the year ended 31 December 2011 are attributable to the following items:

thousands of EUR	1 January 2011	Through income statement	Through other comprehensive income	31 December 2011
Difference between carrying and tax value of fixed assets	(160,786)	13,993	-	(146,793)
Allowance for held-to-maturity investments	1,922	38	-	1,960
Staff cost accruals	1,496	636	-	2,132
Allowance for bad debts	3,531	(1,047)	-	2,484
Termination benefits	752	(316)	-	436
Other	4,451	(1,282)	(627)	2,542
Net deferred tax liability	**(148,634)**	**12,022**	**(627)**	**(137,239)**

Deferred tax assets (liabilities) for the year ended 31 December 2010 are attributable to the following items:

thousands of EUR	1 January 2010	Through business combination	Through income statement	Through other comprehensive income	31 December 2011
Difference between carrying and tax value of fixed assets	(111,118)	(55,259)	5,591	-	(160,786)
Allowance for held-to-maturity investments	1,024	1,024	(126)	-	1,922
Staff cost accruals	712	492	292	-	1,496
Allowance for bad debts	863	2,320	348	-	3,531
Termination benefits	667	-	85	-	752
Other	887	3,221	226	117	4,451
Net deferred tax liability	**(106,965)**	**(48,202)**	**6,416**	**117**	**(148,634)**

12. Assets held for sale

thousands of EUR	Land, buildings and related equipment 2011	2010
At 1 January	1,134	8,314
Net transfer to and from property and equipment (Note 13)	(978)	(7,253)
Reversal of impairment charge (Note 8)	-	470
Assets sold	(156)	(397)
At 31 December	**-**	**1,134**

The Company transferred during 2011 assets of EUR 978 thousand to property and equipment. These assets ceased to meet the criteria to be classified as held for sale as the Company does not expect the sale to be completed within one year. There was no financial impact from the transaction.

13. Property and equipment

thousands of EUR	Land and buildingsy	Duct, cable and other outside plant	Telephone exchanges and related equipment	Radio and trans-mission equipment	Other	Capital work in progress including advances	Total
At 1 January 2011							
Cost	177,406	969,757	1,248,939	294,151	274,303	51,435	3,015,991
Depreciation	(69,443)	(418,166)	(1,073,248)	(215,217)	(167,342)	(726)	(1,944,142)
Net book value	**107,963**	**551,591**	**175,691**	**78,934**	**106,961**	**50,709**	**1,071,849**
Additions	4,049	11,608	17,168	3,246	22,705	31,393	90,169
Depreciation charge	(6,692)	(31,613)	(58,199)	(25,858)	(30,175)	-	(152,537)
Impairment charge	(1,951)	(40)	(1,032)	(1,106)	(1,939)	(685)	(6,753)
Reversal of impairment	135	36	12	-	40	67	290
Disposals	(1,017)	(2)	(181)	(4)	(328)	-	(1,532)
Transfers	3,816	1,184	9,845	(662)	11,494	(25,694)	(17)
Transfers from assets held for sale	975	2	-	-	1	-	978
At 31 December 2011							
Cost	183,028	976,989	1,252,728	315,109	306,152	57,128	3,091,134
Depreciation	(75,750)	(444,223)	(1,109,424)	(260,559)	(197,393)	(1,338)	(2,088,687)
Net book value	**107,278**	**532,766**	**143,304**	**54,550**	**108,759**	**55,790**	**1,002,447**

Property and equipment, excluding motor vehicles, is insured to a limit of EUR 25,000 thousand (2010: EUR 25,000 thousand). Motor vehicles are insured to a limit of EUR 2,500 thousand (2010: EUR 2,500 thousand) for damage on health and expenses related to death and EUR 664 thousand for damage caused by destroyed, seized or lost items, lost profits.

The impairment charge relates mainly to the buildings which the Company intends to be sold and to the equipment and other assets which are considered to be obsolete, has no future use and will be either sold or liquidated.

thousands of EUR	Land and buildings	Duct, cable and other outside plant	Telephone exchanges and related equipment	Radio and trans-mission equipment	Other	Capital work in progress including advances	Total
At 1 January 2010							
Cost	107,753	956,388	1,176,754	-	132,446	14,461	2,387,802
Depreciation	(29,450)	(391,785)	(998,376)	-	(69,242)	(525)	(1,489,378)
Net book value	**78,303**	**564,603**	**178,378**	**-**	**63,204**	**13,936**	**898,424**
Additions from merger in net book value	22,648	-	27,942	89,362	44,094	20,469	204,515
Additions	3,222	16,731	18,723	3,513	23,769	27,027	92,985
Depreciation charge	(5,955)	(30,899)	(54,277)	(14,910)	(23,891)	-	(129,932)
Impairment charge	(487)	(213)	(1,364)	-	(1,668)	(654)	(4,386)
Reversal of impairment	3,676	-	-	-	-	-	3,676
Disposals	(231)	(27)	(96)	-	(324)	(8)	(686)
Transfers	245	943	6,259	969	1,645	(10,061)	-
Transfers to and from assets held for sale	6,542	453	126	-	132	-	7,253
At 31 December 2010							
Cost	177,406	969,757	1,248,939	294,151	274,303	51,435	3,015,991
Depreciation	(69,443)	(418,166)	(1,073,248)	(215,217)	(167,342)	(726)	(1,944,142)
Net book value	**107,963**	**551,591**	**175,691**	**78,934**	**106,961**	**50,709**	**1,071,849**

14. Intangible assets

thousands of EUR	Software	Licenses	Goodwill	Customer contracts	Intangibles under construction	Total
At 1 January 2011						
Cost	401,446	85,612	73,313	411,329	32,746	1,004,446
Amortization	(359,123)	(49,026)	-	(218,738)	(218)	(627,105)
Net book value	**42,323**	**36,586**	**73,313**	**192,591**	**32,528**	**377,341**
Additions	11,990	47,767	-	-	19,995	79,752
Additions from internal developments	168	-	-	-	-	168
Amortization charge	(30,853)	(6,296)	-	(35,672)	-	(72,821)
Transfers	20,317	-	-	-	(20,300)	17
At 31 December 2011						
Cost	428,343	133,379	73,313	406,622	32,223	1,073,880
Amortization	(384,398)	(55,322)	-	(249,703)	-	(689,423)
Net book value	**43,945**	**78,057**	**73,313**	**156,919**	**32,223**	**384,457**

In August 2011 the Telecommunication Office of the Slovak Republic prolonged the license for the provision of mobile services under the frequencies of 900 MHz, 1800 MHz and 450 MHz for the price of EUR 47,767 thousand (Notes 1, 27). Carrying value of the license as at 31 December 2011 is EUR 45,777 thousand and license is valid until 31 August 2021.

Goodwill and customer contracts were recognized at the merger of Slovak Telekom with T-Mobile on 1 July 2010 (Note 4) in the amount of EUR 73,313 thousand and EUR 210,427 thousand, respectively. Goodwill and customer contracts arose on the Slovak Telekom's acquisition of a controlling interest in T-Mobile at 31 December 2004. Carrying values of customer contracts as at 31 December 2011 and remaining useful lives are: EUR 115,169 thousand and 6 years for post-paid business customers, EUR 31,333 thousand and 3 years for post-paid residential customers, EUR 4,571 thousand and 1 year for prepaid customers, EUR 5,847 thousand and 4 years for DNS customers.

thousands of EUR	Software	Licenses	Goodwill	Customer contracts	Intangibles under construction	Spolu
At 1 January 2010						
Cost	189,896	-	-	-	6,431	196 327
Amortization	(167,839)	-	-	-	-	(167 839)
Net book value	**22,057**	**-**	**-**	**-**	**6,431**	**28 488**
Additions from merger in net book value	25,134	39,040	73,313	210,427	12,260	360 174
Additions	13,495	-	-	-	19,276	32 771
Additions from internal developments	481	-	-	-	-	481
Amortization charge	(24,065)	(2,454)	-	(17,836)	-	(44 355)
Impairment charge	-	-	-	-	(218)	(218)
Transfers	5,221	-	-	-	(5,221)	-
At 31 December 2010						
Cost	401,446	85,612	73,313	411,329	32,746	1 004 446
Amortization	(359,123)	(49,026)	-	(218,738)	(218)	(627 105)
Net book value	**42,323**	**36,586**	**73,313**	**192,591**	**32,528**	**377 341**

15. Impairment of goodwill

The goodwill previously recognized at the acquisition of T-Mobile was transferred to the statement of the financial position of the Company on the merger on 1 July 2010 (Note 4). The amount of goodwill recognized is as follows:

thousands of EUR	2011	2010
T-Mobile	73,313	73,313
	73,313	**73,313**

The goodwill is tested for impairment by DT AG. Since 2011 it is tested on Slovak Telekom level. The recoverable amount of the cash-generating unit was determined using cash flows projections based on the ten-year financial plans that have been approved by management and are also used for internal purposes. Cash flows beyond the ten-year period are extrapolated using a 2% growth rate (2010: 2%) and a discount rate of 6.99% (2010: 7.62%). This 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. The recoverable amount of the cash-generating unit based on value in use calculation was determined to exceed 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.

16. Investments in subsidiaries

At 31 December 2011 the Company held the following investments in subsidiaries:

thousands of EUR Name and Registered office	Activity	Cost of investment 2011	Cost of investment 2010	Profit 2011	Profit 2010	Net assets 2011	Net assets 2010
PosAm, spol. s r.o. Odborárska 21, 831 02 Bratislava	IT services, applications and business solutions	12,968	12,968	2,366	2,995	7,240	6,874
Zoznam, s.r.o. Viedenská cesta 3-7, 851 01 Bratislava	Internet portal	2,346	3,908	123	(326)	1,771	1,648
Zoznam Mobile, s.r.o. Viedenská cesta 3-7, 851 01 Bratislava	Mobile content provider	1,410	2,348	60	171	368	309
Telekom Sec, s.r.o. Kukučínova 52, 831 03 Bratislava	Security services	7	7	(3)	(4)	3	6
Until July 2011 the Company had the following subsidiary:							
Institute of Next Generation Networks Poštová 1, 010 08 Žilina	NGN technology research and development	-	-	-	(30)	-	(281)
		16,731	**19,231**				

Financial data for subsidiaries are based on their separate financial statements.

All subsidiaries are incorporated in the Slovak Republic and, except for PosAm, are wholly owned by the Company. Shares in the subsidiaries are not traded on a public market.

On 11 February 2010, the Board of Directors of Slovak Telekom approved the liquidation of the Institute of Next Generation Networks. The liquidation was completed in November 2010 and the entity ceased to exist in July 2011.

Cost of investment in Zoznam and Zoznam Mobile in 2011 is net of impairment of EUR 1,562 thousand and EUR 938 thousand respectively, as the carrying value of investment exceeded its recoverable amount calculated as a present value of subsidiaries' future cash flows.

On 29 January 2010, Slovak Telekom acquired 51% equity interest in PosAm. The final purchase price will be determined by the amount of contingent consideration (earn-out), depending on the EBITDA level for the financial periods 2010 and 2011 cumulatively, that will be paid in 2012 (Note 24). Slovak Telekom and the former owner of PosAm also agreed on put & call options which, if triggered, may result in the transfer of the residual 49% equity interest in PosAm. PosAm is an unlisted company, which specializes in IT services, own software development and hardware and software licences sale. The Company acquired PosAm because it extends the range of services that can be offered to its clients. As a result of the acquisition, the Company is expected to increase the presence of the group in the information and communications technology markets.

In December 2009, the Board of Directors of the Company approved the concept of the integration of Slovak Telekom with its 100% subsidiary T-Mobile. T-Mobile ceased to exist with effect from 1 July 2010. For integration of Slovak Telekom with T-Mobile refer to Note 4.

17. Inventories

thousands of EUR	2011	2010
Cables, wires and spare parts	2,878	3,963
Phones, accessories for mobile communication	7,209	5,996
Other inventory including goods for resale	1,105	3,686
	11,192	**13,645**

The Company reversed write-down of inventories in amount of EUR 541 thousand (2010: write-down expense EUR 15 thousand) which is recognized in cost of material and equipment.

18. Trade and other receivables

thousands of EUR	2011	2010
Non-current		
Finance lease receivable (Note 19)	4,509	-
	4,509	**-**
Current		
Trade receivables from third parties	95,155	101,381
Trade receivables from subsidiaries (Note 27)	57	63
Trade receivables from related parties (Note 27)	4,770	4,351
Other receivables from third parties	1,765	6,958
Other receivables from subsidiaries (Note 27)	129	-
Other receivables from related parties (Note 27)	1,048	508
Finance lease receivable (Note 19)	1,554	-
Derivatives	-	23
	104,478	**113,284**

Trade receivables are net of an allowance of EUR 22,316 thousand (2010: EUR 26,969 thousand).

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

thousands of EUR	2011	2010
At 1 January	26,969	6,737
Additions from merger	-	19,076
Charge for the year	6,169	5,346
Utilised	(9,405)	(2,473)
Reversed	(1,417)	(1,717)
At 31 December	**22,316**	**26,969**

19. Finance lease – the Company as lessor

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. A finance lease is a lease that transfers substantially all the risk and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

The Company entered into a lease agreement as a lessor with the commencement of the lease in May 2011. Based on the agreement, the Company leases terminal equipment (PCs, routers) to the customer. By analyzing the terms of the agreement, the Company concluded that the lease meets the criteria for classification as a finance lease. The main criteria are as follows:

a) Ownership of the equipment will be transferred to the lessee at the end of the service period for its residual value (if any) in a case that lessee will request such ownership transfer at least one month before the end of the service period;
b) Non-cancelable lease period is for the major part of the economic life of the assets concerned (53 months from May 2011 until September 2015);
c) The present value of the minimum lease payments amounts to all of the fair value of the leased asset.

thousands of EUR	2011
Gross investment in the lease	
Not later than 1 year	1,716
Later than 1 year and not later than 5 years	4,703
Later than 5 years	-
Unearned finance income	(356)
Present value of minimum lease payments	**6,063**

thousands of EUR	2011
Present value of minimum lease payments	
Not later than 1 year (Note 18)	1,554
Later than 1 year and not later than 5 years (Note 18)	4,509
Later than 5 years	-
	6,063

20. Prepaid expenses and other assets

thousands of EUR	2011	2010
Non-current		
Deferred activation fees	5,067	6,238
Easement	9,931	9,849
Accrued revenues	-	3,764
Other	2,849	2,566
	17,847	**22,417**
Current		
Deferred activation fees	3,863	4,514
Accrued revenues	-	8,185
Other	2,670	3,319
	6,533	**16,018**

21. Loans

The Company provided the following loans:

thousands of EUR	Úroková sadzba	Splatnosť	2011	2010
Deutsche Telekom AG	2.120%	1.6.2012	40,000	-
Deutsche Telekom AG	2.050%	10.2.2012	60,000	-
Deutsche Telekom AG	2.100%	30.3.2012	90,000	-
Deutsche Telekom AG	1.395%	14.1.2011	-	20,000
Deutsche Telekom AG	1.250%	3.3.2011	-	20,000
Deutsche Telekom AG	1.395%	14.1.2011	-	45,000
Short-term loan (Note 27)			**190,000**	**85,000**

The loans granted to Deutsche Telekom AG are not secured. Deutsche Telekom AG has rating BBB+.

In 2010 the Company created a 100% allowance for a long term loan granted to the Institute of Next Generation Networks in amount of EUR 289 thousand resulting in net value of EUR 0, due to inability on the side of the debtor to repay the loan and subsequent liquidation of the debtor (Note 16).

22. Cash and cash equivalents

thousands of EUR	2011	2010
Cash and cash equivalents	172,414	163,298
	172,414	**163,298**

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.

Credit quality of cash at banks is as follows: rating A+: EUR 90,589 thousand, rating A-: EUR 8,010 thousand and rating A: EUR 72,967 thousand.

23. Shareholders' equity

On 1 April 1999, Slovak Telekom became a joint-stock company with 20,717,920 ordinary shares authorized, issued and fully paid at a par value of EUR 33.2 per share. Deutsche Telekom AG acquired 51% of Slovak Telekom through a privatization agreement effective from 4 August 2000, by which the Company issued 5,309,580 new ordinary shares with a par value of EUR 33.2 per share. The shares were issued at a premium totalling EUR 386,139 thousand. All the newly issued shares were subscribed and fully paid by Deutsche Telekom AG. The privatization transaction also involved the purchase by Deutsche Telekom AG of 7,964,445 existing ordinary shares from the National Property Fund of the Slovak Republic. By acquiring 51% share of Slovak Telekom, Deutsche Telekom obtained 51% of the total voting rights associated with the shares.

As of 31 December 2011, Slovak Telekom had authorized and issued 26,027,500 ordinary shares (2010: 26,027,500) with a par value of EUR 33.2 per share. All the shares issued were fully subscribed. Due to the change in the functional currency of the Company from the Slovak Crown to EUR as at 1 January 2009, there was an increase in the share capital of the Company of EUR 158 thousand. The statutory reserve fund of the Company was used to cover the increase in share capital.

In December 2009, the Board of Directors of Slovak Telekom approved the concept of the integration of Slovak Telekom with its 100% subsidiary T-Mobile. T-Mobile ceased to exist with effect from 1 July 2010 and was wound up without liquidation as of 30 June 2010 on the basis of a merger agreement concluded between Slovak Telekom and T-Mobile. For integration of Slovak Telekom with T-Mobile refer to Note 4.

Financial statements for the year ended 31 December 2010 were authorized for issue on behalf of the Board of Directors of the Company on 10 March 2011.

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. On 28 April 2011, the General Meeting approved distribution of the prior year profit and resolved to transfer 10% of the prior year statutory profits to the reserve fund, with the remaining part of the 2010 profit being retained.

In 2011 the Company declared and paid a dividend of EUR 4.99 per share (2010: EUR 5.11 per share). On the basis of this proposed appropriation, total dividends of EUR 130,000 thousand (2010: EUR 132,933 thousand) were paid in July 2011. Approval of the 2011 profit distribution will take place at the Annual General Meeting scheduled for 30 April 2012.

24. Trade and other payables and deferred income

thousands of EUR	2011	2010
Non-current		
Contingent consideration (earn-out)	-	2,378
Deferred income	5,943	8,023
	5,943	**10,401**
Current		
Trade payables to third parties	86,487	102,993
Trade payables to subsidiaries (Note 27)	6,339	2,649
Trade payables to related parties (Note 27)	11,470	4,741
Amounts due to employees	19,817	18,252
Contingent consideration (earn-out)	2,438	-
Deferred income	36,386	39,902
Other payables to third parties	11,684	13,055
Other payables to related parties (Note 27)	56	-
	174,677	**181,592**

Amounts due to employees include social fund liabilities:

thousands of EUR	2011	2010
At 1 January	111	193
Additions from merger	-	2
Additions	1,740	1,551
Utilisation	(1,653)	(1,635)
At 31 December	**198**	**111**

25. Provisions

thousands of EUR	Legal and regulatory claims	Asset retirement obligation	Loyalty program	Termination benefits	Employee benefits	Other	Total
At 1 January 2011	1,757	8,436	2,449	3,960	2,912	1,935	21,449
Arising during the year	979	134	181	6,964	1,023	3,377	12,658
Reversals	(483)	(629)	(1,275)	-	(3,478)	(252)	(6,117)
Utilised	(140)	(140)	(1,330)	(8,629)	(87)	(2,897)	(13,223)
Interest impact	-	182	-	-	367	10	559
At 31 December 2011	**2,113**	**7,983**	**25**	**2,295**	**737**	**2,173**	**15,326**
Non-current	-	7,983	-	-	737	1,192	9,912
Current	2,113	-	25	2,295	-	981	5,414
	2,113	**7,983**	**25**	**2,295**	**737**	**2,173**	**15,326**

Legal and regulatory claims

The provision includes amounts in respect of legal and regulatory claims brought against the Company. It is the opinion of the Company's management that the outcome of these legal and regulatory claims will not result in any significant loss beyond the amounts provided at 31 December 2011.

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.

Loyalty program

From August 2011, the Company discontinued provision of the loyalty points to its customers. All points granted by August 2011, but not redeemed by the customers expired on 31 December 2011. Provision for the points, which were not utilized by customers, was released. Remaining balance of the provision of EUR 25 thousand was released in January 2012.

Termination benefits

The restructuring of the Company's operations resulted in headcount reduction of 733 employees in 2011. The Company expects a further headcount reduction of 169 employees in 2012 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 recognized in full in the current period.

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 2011	8,528	275	8,803
Interest cost	358	9	367
Current service cost	552	19	571
Past service costs due to plan amendments	2,530	-	2,530
Benefits paid	(66)	(20)	(86)
Actuarial gains	(3,299)	(26)	(3,325)
At 31 December 2011	**8,603**	**257**	**8,860**
Past service cost not recognized in the statement of financial position	(7,970)	-	(7,970)
Curtailment gain	(105)	(48)	(153)
Liability recognized in the statement of financial position at 31 December 2011	**528**	**209**	**737**

Past service costs in amount of EUR 2,530 thousand relate to amended terms of retirement benefit. The curtailment gain in amount of EUR 153 thousand resulted from a reduction in the number of participants covered by the retirement and jubilee benefit plans.

Principal actuarial assumptions, except for interest costs, used in determining the defined benefit obligation include the discount rate of 5.210%.

Interest costs include the discount rate as at the beginning of the accounting period of 3.238%. Average retirement age is 62 years. The expected growth of nominal wages is 2.900%.

26. Commitments

The Company's non-current assets purchase and miscellaneous purchase commitments were as follows:

thousands of EUR	2011	2010
Commitments for the acquisition of intangible assets	14,603	1,234
Commitments for the acquisition of property and equipment	8,690	9,909
Commitments for the purchase of services and inventory	93,142	40,918
	116,435	**52,061**

The Company has commitments for the acquisition of tangible and intangible fixed assets mainly with Deutsche Telekom AG of EUR 6,150 thousand relating to the project NG CRM.

The Company has other purchase commitments relating primarily to outsourcing of operation and maintenance of technologies with Ericsson Slovakia of EUR 18,400 thousand, provision of satellite digital TV with Magyar Telekom of EUR 15,261 thousand, purchase of devices from Apple of EUR 8,985 thousand and Leadtek of EUR 4,148 thousand, outsourcing of real estate management with BK Service International of EUR 7,441 thousand and management of data centres with COFELY of EUR 5,120 thousand.

The future minimum operating lease payments were as follows:

thousands of EUR	2011	2010
Operating lease payments due within one year	5,281	11,420
Operating lease payments due between one and five years	5,243	12,254
Operating lease payments due after five years	111	2,145
	10,635	**25,819**

The Company has commitments under operating leases of EUR 6,215 thousand from rental of administration premises and of EUR 4,420 thousand for shops and car fleet rental.

27. Related party transactions

thousands of EUR	Receivables		Payables		Sales and income		Purchases		Commitments	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
DT AG	191,639	85,861	8,953	2,348	5,459	2,679	10,328	3,597	7,480	-
Subsidiaries	186	63	6,339	2,649	1,642	13,563	11,434	7,837	-	-
Other entities in DT AG group	4,177	3,998	2,573	2,393	11,675	8,552	11,745	9,056	-	-
Other shareholders of the Company	2	-	-	-	51	-	1	-	-	-
	196,004	**89,922**	**17,865**	**7,390**	**18,827**	**24,794**	**33,508**	**20,490**	**7,480**	**-**

The Company conducts business with its subsidiaries (PosAm, Zoznam, Zoznam Mobile, Telekom Sec, T-Mobile Slovensko until 30 June 2010) 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. The Company purchased fixed assets in amount of EUR 9,062 thousand (2010: EUR 2,965 thousand).

The Company granted Deutsche Telekom AG a short-term loan of EUR 190,000 thousand (2010: EUR 85,000 thousand). Interest related to the loan amounted to EUR 2,777 thousand (2010: EUR 1,458 thousand) (Notes 9, 21).

In March 2011 the General meeting of PosAm declared a dividend of EUR 1,020 thousand, which was paid in 2011. There was no dividend declared by other subsidiaries in 2011.

The Slovak Government has significant influence over the financial and operating policy decisions of the Company through 49% of the shares of the Company. The shares are owned by Slovak Republic through the Ministry of the Economy of the Slovak Republic (34%) and by the National Property Fund of the Slovak Republic (15%). Therefore the Slovak Government and the companies controlled or jointly-controlled by the Slovak Government are classified as related parties of the Company ("Slovak Government related entities").

In 2011 the Company paid to the Telecommunications Office of the Slovak Republic fee of EUR 47,767 thousand for the prolongation of the license for the provision of mobile services under the frequencies of 900 MHz, 1800 MHz and 450 MHz (Notes 1, 14). The Company also incurred expenses of EUR 7,353 thousand (2010: EUR 3,854 thousand) with respect to other frequency and telecommunication equipment related fees to the Telecommunications Office (Note 7).

During 2010 the Company has entered into a contract for the period of 5 years with the Slovak Government related entity on establishment and delivery of communication system, lease of terminal equipment (Note 19), delivery of internet connectivity and other telecommunications services. The total value of the contracts is approximately EUR 23,859 thousand, of which revenue of EUR 12,426 thousand was recognized during 2011.

During 2001 the Company has signed a master agreement with the Slovak Government related entity on providing services of communications infrastructure. The contract amount depends on actual services provided during the financial period. In 2011, the Company recognized revenue related to this contract of EUR 8,673 thousand (2010: EUR 9,073 thousand).

During 2011 the Company purchased electricity and electricity distribution services from the Slovak Government related entities for EUR 8,537 thousand (2010: EUR 10,947 thousand).

During 2011 the Company purchased postal and cash collection services for EUR 5,524 thousand (2010: EUR 5,840 thousand) and leased space for EUR 2,043 thousand (2010: EUR 2,132 thousand) from the Slovak Government related entity.

The Company routinely provides telecommunication and other electronic communication services to the Slovak Government and its related entities as part of its normal business activities. The Company also purchases services and goods from the Slovak Government related entities in the normal course of business.

Deutsche Telekom as the 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 2010 or 2011.

Compensation of key management personnel

The key management personnel, 20 in number (2010: 20) include members of the Executive Management Board, Board of Directors and Supervisory Board.

thousands of EUR	2011	2010
Short term employee benefits	2,495	2,008
Cash based incentive program payments	270	204
	2,765	**2,212**

thousands of EUR	2011	2010
Executive Management Board	2,666	2,138
Board of Directors	55	39
Supervisory Board	44	35
	2,765	**2,212**

28. Contingencies

Legal and regulatory cases

On 8 April 2009, the European Commission ("Commission") opened proceedings against the Company. The Commission is investigating whether the Company may have engaged in conduct obstructing competition in the Slovak Republic, in violation of Article 102 of the Treaty on the Functioning of the European Union ("TFEU") in particular whether the Company has engaged in refusal to supply and/or in margin squeeze conduct to the detriment of its competitors on the broadband market.

The investigation has proceeded through a series of questionnaires, to which the Company responded in a timely and professional manner. The Company has also adopted a pro-active approach to the investigation by submitting four "issues papers", substantiating why the Commission should not intervene in the present case. These papers were accompanied by reports from two independent experts, adding to their credibility.

On 28 January 2011, the Company met with the Commission to discuss the current status of the Commission's investigation. On 3 February 2011 and 5 July 2011 Deutsche Telekom met with the Commission to discuss parental liability of Deutsche Telekom. The Commission now has to decide whether to issue a Statement of Objections setting out its preliminary view. If proven, the allegations against the Company could lead to the Commission finding that the Company was in infringement of Article 102 TFEU and imposing a fine on the Company. In proceedings of this kind, the final amount of the fine shall not, in any event, exceed 10 % of the total turnover in the preceding business year of the undertaking. However, in the event that the Commission is able to establish so-called "parental liability" due to the "influence" that Deutsche Telekom allegedly exerts on the Company, this could be understood as the turnover of the group and could attain 10% of overall turnover. Company's legal position is that the likelihood of the Commission issuing a ruling of infringement and imposing a fine is possible rather than probable and a provision has not been made in these financial statements. Should, however, the Commission decide to adopt an infringement decision, it is not possible at this preliminary stage of the case to predict the level of fine to which Company would be exposed.

In 1999, a lawsuit was brought against Company for compensation of damages and loss of profit allegedly caused by switch-off of the Radio CD International ("CDI") broadcasting in 1996. Radio CDI was a program of Slovak Radio directed to the territory of Austria and broadcasted by Company. In 1996, the broadcasting of the Radio CDI was switched off, based on the request of the Council for Radio and Television Broadcasting stating that Radio CDI broadcasting violated the law. In 2011, the first instance court decided that Company is obliged to pay the plaintiff the amount of EUR 32,179 thousand of the principal and 17.6% late interest since 4 September 1996 until fully paid. Company filed an appeal against that judgment as it is of the opinion that the first instance court did not deal with a number of proofs and assertions provided by Company. Additionally, Company believes that serious errors were committed in the matter at issue on the part of the first instance court, which errors prove the incorrectness of the judgement and should be sufficient enough to consider that whilst the loss in this lawsuit is possible, it is not likely.

In 2007 the Regional Court in Bratislava overturned the second stage decision of the Anti-Monopoly Office ("AMO"), which had imposed on Company a penalty of EUR 29,377 thousand for abuse of dominant position by failing to provide access local loops service (as an essential facility) to Company's competitors within the period of August 2002 to August 2005. Subsequently, AMO initiated a new proceeding on this same issue and imposed on Company the same penalty again. Company filed an administrative complaint against this decision. Subsequently, in 2010, the Regional Court cancelled the challenged AMO decisions in full, however AMO appealed against this judgment. In 2011, the Supreme Court confirmed the judgment of the Regional Court, thus the case was returned back to AMO for further proceedings and correction of errors. On 3 February 2012, Slovak Telekom was delivered a decision of the AMO on closing the proceedings. The decision is final. The AMO admitted that there is no sufficient evidence to prove the abuse of dominant position by failing to provide access to local loops (as an essential facility) to Company's competitors and there is no real expectation that AMO would be able to gather such evidence in the future.

In 2009, AMO imposed on Company a penalty of EUR 17,453 thousand for abusing its dominant position and violating competition law by price squeeze and tying practices on several relevant markets (voice, data and network access services). Company filed an administrative complaint to the Regional Court in Bratislava in 2009. In January 2012 the Regional Court cancelled the challenged AMO decisions in full. The judgment is appealable. As management believes that it is possible rather than probable that this case will result in an obligation to pay the penalty, a provision has not been made in these financial statements.

In 2007 the Regional Court in Bratislava overturned the second stage decision of AMO, which had imposed on Company a penalty of EUR 2,656 thousand for abusing its dominant position in tendering for complex telecommunication project. Subsequently, AMO initiated a new proceeding on this same issue and imposed on Company the penalty of EUR 2,423 thousand for abusing its dominant position in tendering for complex telecommunication project by margin squeeze on data VPN services. Company filed an administrative complaint to the Regional Court in Bratislava in 2009, based on which, in 2010, the Regional Court decided in favour of Company and cancelled AMO decisions in full. AMO appealed this judgement, however, in 2011 the Supreme Court confirmed the first instance judgment and returned the case back to AMO for further proceedings and correction of errors. As management believes that it is possible rather than probable that this case will result in an obligation to pay a penalty, a provision has not been made in these financial statements.

The Company is involved in legal and regulatory proceedings in the normal course of business. Management is confident that the Company will suffer no material loss as a result of such proceedings in excess of the provisions already recognized in the financial statements (Note 25).

Tax legislation

Many areas of Slovak tax law (such as transfer-pricing regulations) have not been sufficiently tested in practice, so there is some uncertainty as to how the tax authorities would apply them. The extent of this uncertainty cannot be quantified. It will be reduced only if legal precedents or official interpretations are available. The Company's management is not aware of any circumstances that may give rise to a future material expense in this respect.

29. Financial assets and liabilities

Fair values
Below is a comparison of the carrying amounts and fair values of main categories of financial assets and liabilities carried in the financial statements:

	Carrying amount		Fair value	
thousands of EUR	2011	2010	2011	2010
Financial assets				
Non-current				
Held-to-maturity investments	-	39,266	-	39,344
Finance lease receivable (Note 19)	4,509	-	4,509	-
Current				
Cash and cash equivalents	172,414	163,298	172,414	163,298
Held-to-maturity investments	82,724	43,079	82,757	43,110
Term deposit over 3 months	-	60,000	-	60,000
Trade receivables (Note 18)	99,982	105,795	99,982	105,795
Finance lease receivable (Note 19)	1,554	-	1,554	-
Loans (Note 21)	190,000	85,000	190,000	85,000
Derivative financial instruments held for trading	-	23	-	23
Financial liabilities				
Non-current				
Contingent consideration (earn-out) (Note 24)	-	2,378	-	2,378
Current				
Trade payables (Note 24)	104,296	110,383	104,296	110,383
Contingent consideration (earn-out) (Note 24)	2,438	-	2,438	-

Cash and cash equivalents, derivative financial instruments held for trading, trade receivables, trade payables and loans have short maturities and their carrying amounts approximate their fair values at the reporting date.

The held-to-maturity investments consist of state bonds, state promissory note and a bank bond with remaining maturity up to 1 year. The Company has the ability and intends to hold these investments till maturity. The fair value of the held-to-maturity investments amounted to EUR 82,757 thousand at 31 December 2011 (2010: EUR 82,454 thousand). This value was established based on market values provided by banks who act as depositors of the securities.

If the interest rates of the held-to-maturity investments were 15 basis points higher/20 basis points lower and all other variables were held constant, the Company's profit for the year ended 31 December 2011 and equity at 31 December 2011 would increase/decrease by EUR 127 thousand/ EUR 170 thousand (2010: EUR 64 thousand/EUR 73 thousand).

Forward foreign exchange contracts
As of 31 December 2011 the Company was not a party to any foreign exchange forward contract.

As of 31 December 2010 the Company was a party to five foreign exchange forward contracts with maturity of one to five months to hedge anticipated future foreign currency expenditure in USD. While these contracts provided effective economic hedges under the Company's risk management policies, they did not qualify for hedge accounting under the specific rules of IAS 39 and were, therefore, classified as held for trading upon initial recognition.

The net gain from the change in the fair value of derivative instruments was recognized in the income statement in the amount of EUR 17 thousand, net of tax of EUR 3 thousand for the year ended 31 December 2010.

30. Audit fees

In 2011 the Company changed the audit company to PricewaterhouseCoopers Slovensko (2010: Ernst & Young Slovakia).
In 2011 the Company obtained statutory audit services in amount of EUR 136 thousand (2010: EUR 170 thousand), other assurance services in amount of EUR 120 thousand (2010: EUR 169 thousand) and other services in amount of EUR 24 thousand (2010: EUR 43 thousand).

31. Events after the reporting period

The Company reported contingent liability in amount of EUR 29,377 thousand as at 31 December 2011as disclosed in Note 28. Further development of the case during the 2012 resulted in closing of the proceedings against the Company.

There were no other events, which have occurred subsequent to the yearend, which would have a material impact on the financial statements at 31 December 2011.

Independent auditor's report

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Slovak Telekom, a.s. (the "Company"), which comprise the statement of financial position as at 31 December 2011 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2011, 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.

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The firm's ID No. (IČO): 35 739 347.
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 I, pod Vložkou č.: 16611/B, Oddiel: Sro.
The firm is registered in the Commercial Register of Bratislava I District Court, Ref. No.: 16611/B, Section: Sro.

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Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 28 to the financial statements that describes current proceedings initiated by the European Commission against the Company and describes the potential implications thereof. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements. Our opinion is not qualified in respect of this matter.

PricewaterhouseCoopers Slovensko, s.r.o.
SKAU licence No.: 161
in Bratislava 15 March 2012

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

Ing. Eva Petrýdesová
SKAU licence No.: 934

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

Proposal for profit distribution

On 30 April 2012 the Ordinary General Meeting will decide on profit distribution for the year 2011, together with approval of Separate and Consolidated Financial Statements and Annual Report of Slovak Telekom for the year 2011. The following proposal for profit distribution was submitted to the General Meeting:

	thousands of EUR
Profit of Slovak Telekom, a.s. for the year 2011	113,933
Distribution to funds:	
Statutory reserve fund	11,393
Retained earnings	102,540