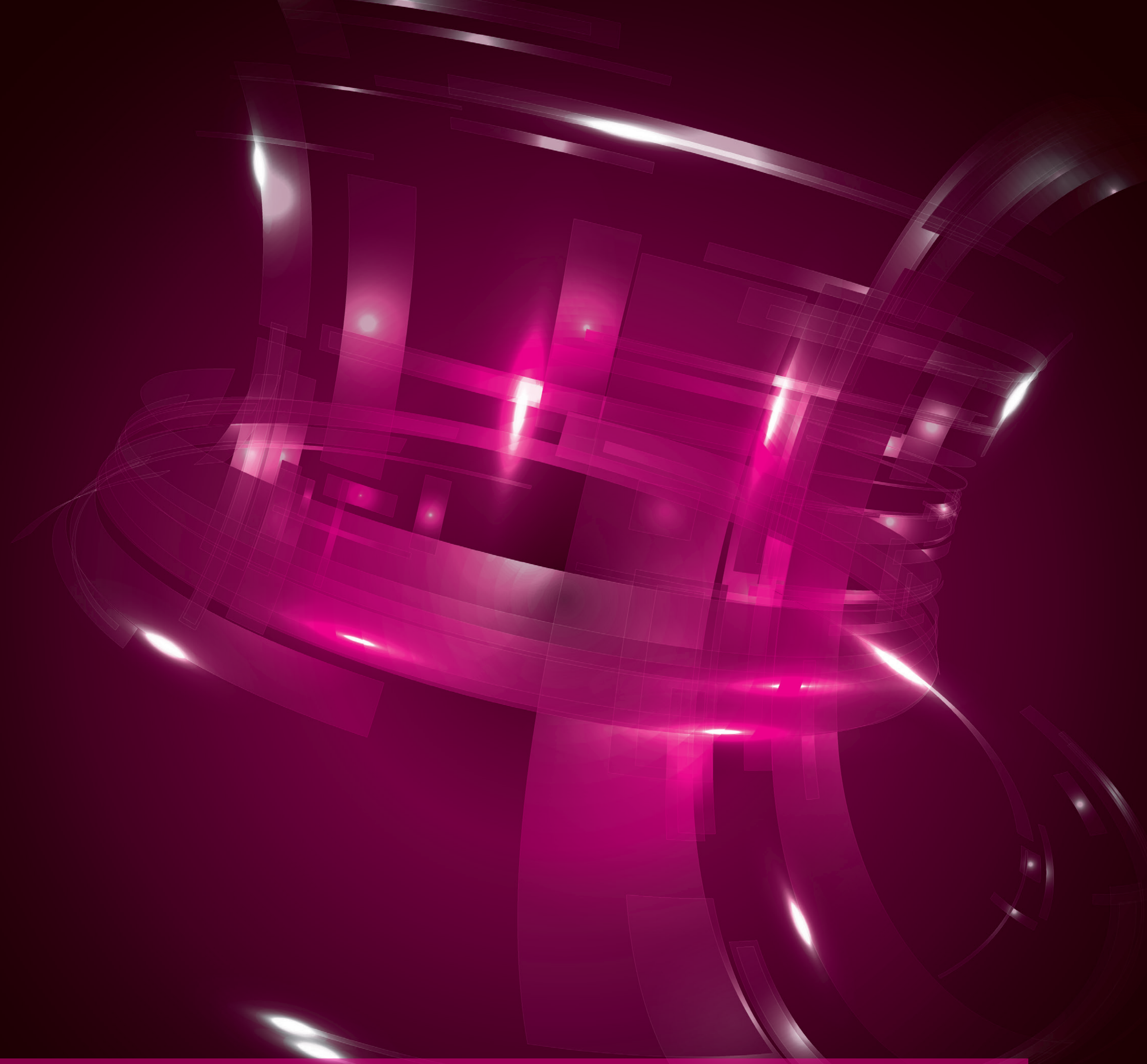
SLOVAK TELEKOM
ANNUAL REPORT 2012

ZAŽIME TO SPOLU

CONTENT



01 INTRODUCTION OF SLOVAK TELEKOM GROUP

FOREWORD OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

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

Dear Ladies and Gentlemen,

We evaluate 2012 as one of the most challenging years in our Company's history, and though we faced many challenges we managed to achieve favourable financial results, maintain profitability and bring innovations to market which again moved forward Slovakia's telecommunications market. I would like to thank you for your favour – both you our shareholders and you the more than three million of our customers using our services every day.

For us as a telecommunications operator, it is very difficult to take in all the macroeconomic factors or regulation influences which constantly affect us, having impact on year round economic performance. The Slovak telecommunications market has been declining for four consecutive years, and the current economic situation indicates no change for the better in the near future. In such an environment we are facing regulatory pressure: interconnect rates saw a significant drop (by 42%), the sixth roaming regulation wave came upon us, and we felt the impact of an additional tax burden, affecting our Company's profit. Despite this, we managed to generate EBITDA amounting to more than EUR 350 million, a testament to our efficiency.

In 2012, we continued in our Alexander transformation program, which helped us cut costs and consolidate various activities. As part of the program, we implemented several schemes in sales of products and services to customers, and we are continuing this, mainly in the IT and technology areas. 2012 launched a new phase of IT transformation, in which we intend to proceed, migrating customers to new platforms. Concurrently, we began a process of optimising our extensive product portfolio.

In October 2012, we partially reorganised our structure, to align it with that of the Deutsche Telekom Group. Marketing, sales, and customer service units now exist as two new divisions, structured according to dedicated customer groups. The mass market segment will focus on B2C activities, customers as individuals, and households. The B2B unit, interlinked with ICT, is preparing the best offers for business customers. Implementation of the flexible TelekomCloud solution was one of these. I believe the new structure will soon help customers see positive changes and product innovations.

We realise our position in this environment, and we want to invest in customers and the services they use. That was the reason we increased 3G network coverage, which now covers 77% of the population; most of transmitters support the HSPA+ upgrade, offering speed of 21 Mbps. One of the fastest general speed increase enabled us to offer implementation of higher speeds for all ADSL network customers free of charge.

In the fixed network, we continue to strive to compensate the diminishing revenues from voice services with activities in internet services, in which we are still increasing the number of broadband accesses (with 480 thousand at the end of the year) and digital television customers. We again increased the number of Magio customers (to 175 thousand) in 2012, which testifies to our platform's popularity. Magio TV is currently available via three technologies: metallic and optical networks, and satellite; our aim is, however, to further expand it.

In the mobile segment we made big changes. Already in the first quarter we introduced new prepaid cards, which brought back the power of the Easy brand, providing lower charges of calls, text messages, and particularly mobile internet. In the second half of the year we focused more on flat-rate plans, creating brand-new plan families; their common characteristics are unlimited calls in the Company's network, free minutes to other networks, and – as goes without saying – mobile internet. Happy and Biznis Star plans attracted customers in autumn and Christmas campaigns, and we see increasing potential in them.

Mobile internet and its penetration demonstrate the changes in the service portfolio and in our customers' preferences. A few years ago, smartphones only were in the hands of enthusiasts. Last year, three of four phones sold were smartphones. Much of our good sales results are also thanks to the new system of Happy plans, under which customers can split payments for cell phone into monthly instalments and therefore afford more expensive phones. Thus smartphone users are not just fans of renowned brands, but an increasing number of customers across all age groups. Almost two thirds of smartphone customers also activate mobile internet. So it is no more a mere apparatus for making calls and writing text messages; it is a tool for internet communication, and use of applications and their sharing via social networks. Mobile services are getting ever closer to the Company's slogan "Life is for sharing", and we are happy participate in sharing the experiences of our customers, as demonstrated by several creative campaigns.

Customers using smartphones with mobile internet face another challenge: how to use the phone even more. Our aim is primarily to improve our portal, and provide easy service activation directly from the phone, and in particular to offer them new items. I am very pleased that more than 350 thousand customers are using micro payments and finding their way to interesting content; for example, thanks to our promotional e-book campaign, they could read several books on their new smartphones or tablets for a symbolic one Euro at Christmas. Our plan to boost mobile television via the Magio TV Go application is proof of our faith in smartphones and tablets.

Our subsidiaries also had a successful year. Zoznam recorded higher revenues, and launched mobile versions of its projects and new items such as Predpredaj.sk. PosAm has a more exacting task in coping with the ICT field, but it is maintaining a good market share and introducing interesting solutions.

2012 was a challenging year. It showed us new areas in which we can grow and expand our possibilities: mobile data, where connectivity is increasingly shifting from modems and notebooks to smartphones and tables; Magio digital television, which we will more often see in mobile devices and not just in living rooms; and ICT, bringing new solutions and more comprehensive service. We want the customer to come first in 2013. We will continue investing in the customer and the entire market. I believe you will again appreciate our efforts at the end of next year.

Miroslav Majoroš
Chairman of the Board of Directors and CEO

MILESTONES IN 2012

(REPORT ON COMPANY'S BUSINESS ACTIVITIES AND FINANCIAL REPORT).

JANUARY

Nepočujú a predsa môžu podnikať (Hearing-impaired but able to do business): The Endowment Fund Telekom with the Pontis Foundation prepared a cost-free training course for the hearing-impaired: "How to start doing business". The purpose of the course was to inform the hearing-impaired about economic and related issues associated with starting a business.

Change in Company management: Dipl.-Ing. Branimir Marić became the new Chief Technology and Information Officer and member of Slovak Telekom's executive management as of 1 January 2012.

FEBRUARY

The Company introduces Easy Free, a pre-paid novelty item: Its launch brought about a dramatic change to the pre-paid card structure. The card emphasises unbeatable prices of calls and affordable mobile internet.

Deň bezpečného internetu (Safe Internet Day): The eSlovensko civic association, Ministry of Education, Science, Research and Sport of the Slovak Republic, and Slovak Telekom prepared the first free publication giving advice on child protection in the virtual world: Deti v sieti (Children in the net).

High-capacity data transmission: The Úschovňa.sk (Deposit.sk) Service, made it possible to store and transfer files of up to 2 GB, with no registry or fees.

MARCH

Launch of the Easy Time Slovak Telekom card bolsters the pre-paid segment: The card's main benefit was long calls to both of Telekom's networks, mobile and fixed; it also offered advantageous calls to all Slovak networks. Two affordable data packages were available too.

New positions for interns on Career Days: During Career Days, Slovak Telekom offered university students 6-to-12-month professional internships with benefits. This gives students the opportunity to gain practical experience and even become Company employees.

The Zoznam.sk internet portal became number one: In March, the Zoznam.sk internet portal achieved the top position in Slovakia's internet market (source: AIM monitor).

APRIL

Coffee shop where people "talk with their hands": Hearing-impaired Lucia Ďurkovičová has opened in Prievidza the first coffee shop in Slovakia, where Hearing-Impaired serve others. She managed to do so thanks in part to the grant programme of the Endowment Fund Telekom with the Pontis Foundation called Looking for Another Sense – FOR BUSINESS.

MAY

Olympic spirit on Magio Beach: The 6th anniversary of this favourite project on the Tyršovo nábrežie river bank embraced the Olympic spirit. Thanks to close cooperation with the Slovak Olympic Committee, the beach became the only official Slovak fan zone of the Olympic Games in London. Sign language courses for public were also run on the beach, free of charge.

Responsive design: In redesigning the service intended for search of telephone numbers, carried out in cooperation with Slovak Telekom, the Zoznam.sk internet portal made use of advanced web page design. The new web design offered users of all types of devices a unified experience.

JUNE

ADSL network-wide acceleration: The Company started gradually increasing network speed. Phase one included nation-wide acceleration for Turbo plans; later the internet plans portfolio was modified in combination with Magio digital television.

Stylish summer novelty items: As part of its summer campaign, Slovak Telekom offered discount tablets, notebooks, TV sets, digital cameras and printing machines, priced from 1 euro, as premiums for plans chosen.

3G for 70% of the population: By summer last year, the advanced third generation network was available for almost three fourths of Slovakia's inhabitants.

Something new in Fix: As part of its corporate social responsibility activities, Slovak Telekom began offering parental services not only for pre-paid cards, but for Fix plans as well.

Influence on Facebook: The Socialbakers.com website ranked Topky.sk, the news magazine, among the most influential news media on Slovakia's Facebook. It exceeded the key boundary of 100,000 page views in June.

JULY

Magio not just for TV: Slovak Telekom launched pilot operation of a new service, thanks to which Magio TV customers can view selected Slovak and Czech channels on such devices as desktop PCs, notebooks, tablets, or mobile via fixed or mobile internet connection.
Students learning on the beach: The Endowment Fund Telekom with

Pontis Foundation, along with the Comenius Children's University in Bratislava, organised a workshop on Magio Beach on topics related to child internet safety and basic sign language knowledge.

"Move on" movie with Slovak participation: Slovak actress Gabriela Marcinková played the leading female role in an interactive road movie. Movie fans from the eleven countries where Deutsche Telekom operates influenced the storyline of the Move on movie, helping the Company fulfil its brand's promise: "Life is for sharing".

Entry into new market segment: Thanks to the ticket sale platform "Predpredaj.sk", Zoznam.sk started business operations in a new market segment. Predpredaj.sk effectively put the communication of events and sale of tickets under one roof.

PosAm again shortlisted for IT FIRMA award: PosAm was once more shortlisted for the prestigious IT FIRMA roka (IT Company of the Year) award. It was selected from among the broader pool of 150 companies, then a commission chose it as one of the best 5, based on development of unique products, introduction of new services, exporting products with high added value, development of new market segments, investment into corporate development, cooperation with academic circles and research institutions, and projects beneficial to the public.

AUGUST

The first full-flat in Slovak Telekom's offering: The Company introduced mobile Happy plans. A series of plans contained unlimited calls within Telekom's network, unlimited SMSs and data.

SEPTEMBER

New portfolio for business customers: Slovak Telekom introduced Biznis Star, a portfolio encompassing all communication services needed by business customers – unlimited calls to Telekom's network, the other Slovak networks and all EU countries, receiving of unlimited incoming calls within EU countries, and data roaming with significant savings and progressive charges.

Record-breaking attendance on Magio Beach: More than 150,000 people visited the beach in the summer, the highest attendance figure reached in its six-year existence.

Kariéra.sk's own magazine: The new magazine Kariérainfo.sk offered users useful and practical advice on employment law.

Telekom drawing for entrepreneurs with hearing impairments: Slovak Telekom paid one Euro for each drawing in the online sketch book at www.umenieprevolat.sk to support entrepreneurs with hearing impairments. This made possible their attendance at a special training course on marketing and sales skills.

International Week of the Deaf: As part of the International Week of the Deaf, Slovak Telekom presented a campaign titled "Láska slová nepotrebuje" (Love needs no words), featuring little Dominik and his parents. On 30 September, the Day of the Deaf, the Company simultaneously translated all its commercials into sign language.

PosAm awarded for most effective human capital management in IT sector: PosAm won the Leading HR Organisation award; the award goes to companies with the most effectively managed human capital. The first year of the contest was organised by PricewaterhouseCoopers (PwC) in cooperation with the Slovak Association for Human Resources Management and Development. 130 companies in Slovakia participated, 19 of which were from the IT sector.

PosAm is the fastest-growing partner of Hitachi DataSystems in the EMEA region: PosAm obtained the 2011 TOP EMEA Growth Partner of the Year award, given by Hitachi DataSystems for the fastest growing partner in the EMEA region. This award confirms PosAm's position as a prominent system integrator in Storage solutions and services.

OCTOBER

Company presents its own Cloud solution: In cooperation with its subsidiary PosAm, Slovak Telekom introduced a new Cloud-computing-based service, TelekomCloud.

Magio service accessibility increase: Through the new Magio TV Lite, Slovak Telekom extended Magio television to areas where the existing metallic was not suitable for the service.

Reinhold Messner in Slovakia for the first time: At the invitation of Slovak Telekom and Samsung, Reinhold Messner, the mountaineer, adventurer and author of dozens of books, visited Slovakia.

Mapa.sk now number one on the market: Research carried out by AIM monitor confirmed the leading position of service in the maps segment of Slovakia's internet.

NOVEMBER

Slovakia's first flat plans for fixed line: Slovak Telekom introduced two new fixed line plans with unlimited calls.

Telekom expands HSPA+ 42 Mbps to new locations: The state-of-the-art technology was thus accessible in 37 locations throughout the entire territory of Slovakia by the end of 2012.

Redesign of mobile webs: Zoznam redesigned the mobile versions of the Topky.sk, Dromedar.sk, Mojdom.sk, Sporty.sk and Hudba.sk magazines to provide a uniform user experience.

PosAm wins Citrix Cloud Advisor status
Based on its 2012 results, PosAm became the only company in Slovakia and the Czech Republic to obtain a Citrix Cloud Advisor certificate. This came in part thanks to successfully accomplishing a cloud solution for Slovak Telekom. PosAm thus confirmed its ability to bring to real life the latest technological innovations, moving the business of its customers to a new and higher level.

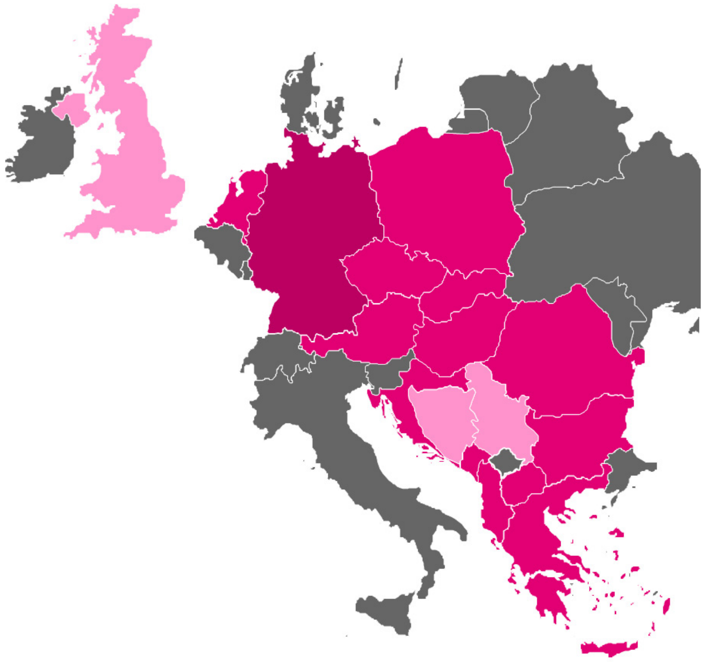
DECEMBER

Topky.sk – the most popular internet medium: A survey by Google.com in December showed that this news magazine became the most sought-after medium on Slovakia's internet.

(A MORE DETAILED REPORT ON THE COMPANY'S BUSINESS ACTIVITIES IS PART OF CHAPTER 3. A REPORT ON FINANCIAL STANDING IS PART OF FINANCIAL STATEMENTS).

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 ALSO STANDS FOR THE GLOBALLY APPLIED VALUES HONOURED BY THEIR EMPLOYEES.



ZDROJ: 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.

COMPOSITION OF 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 Slovak Telekom Group as a 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), and security services (Telekom Sec).

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

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, and publishes its annual report and a corporate social responsibility report every year.

Slovak Telekom 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 of 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 2012 were: Zoznam, Zoznam Mobile, Telekom Sec and PosAm. All subsidiaries acted as separate legal entities.

SLOVAK TELEKOM, A. S.

Slovak Telekom is the largest Slovak multimedia operator with many years of experience and a responsible approach to doing business. The Company is a universal operator, offering residential and corporate clientele the benefits of a comprehensive solution provided from a single source. The Telekom brand offers a complex portfolio of voice and data services provided via a fixed as well as mobile network. It brings to the market international know-how, innovative solutions and the newest technological trends.

Slovak Telekom offers a full array of data and voice services, and owns and operates a fixed and mobile telecommunications network covering almost the entire territory of the Slovak Republic. In the field of the fixed network, the Company systematically invests in the most advanced optical infrastructure, operates the Next Generation Network (NGN) and is the largest broadband provider in the country. As Slovakia's first multimedia operator, it offers the digital TV Magio via fixed networks and DVB-S2 satellite technology. In the field of mobile communication, it is the only operator providing internet connectivity via four technologies for high-speed data transmission: GPRS/EDGE, Wireless LAN (Wi-Fi), UMTS FDD/HSDPA/HSUPA and FLASH-OFDM. It became the first operator in Slovakia to launch the MMS messaging service and BlackBerry. Its customers can use roaming services in networks of mobile operators in destinations all over the world. The Company is considered to the leader in providing telecommunications services to the most demanding segment of business customers, both in service scope and quality.

Slovak Telekom received the EN ISO 9001: 2008 quality management system certificate, the EN ISO 14001: 2004 environmental management system certificate and the ISO / IEC 27001: 2005 information security management certificate. According to a reputable study by Hewitt Associates, the Company is one of the best employers in Slovakia. It also is a respected and long-term leader in the field of CR and philanthropy.

In 2012 an integral component of the system of governance was the Company's organisational structure, which determines its basic arrangement, divided into corporate bodies and executive management.

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:
1st 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:
Tatrabanka, a.s., Bank Account Number: 2628740740/1100, IBAN:SK28 1100 0000 0026 2874 0740

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 of the Commercial Code as amended (hereinafter "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.

Principal business activities of the Company:
- provision of telecommunications services against payment (transmission, processing, creation and mediation of information) for individuals and corporations using voice, graphical, visual, data, information, and multimedia telecommunications services and all combinations thereof;
- establishment, operation, construction, maintenance, and servicing of telecommunications facilities, networks, and information technologies owned by third parties 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 PTN (public telecommunications network) to the international telecommunications network, concluding of international agreements in telecommunications related to the

business activities of Slovak Telecom, and proposing prices and tariffs for domestic and international services, including billing and clearing thereof;
- establishment and operation of public mobile telecommunications networks over the frequencies assigned under the License of the Telecommunications Office of the Slovak Republic;
- provision of a public mobile telephone service via the mobile public telecommunications services stated in the previous paragraph;
- provisioning and operation of a public data network with packet switching;
- provision of a public mobile telephone service and full scope of data and multimedia services via the third generation mobile network;
- establishment and operation of a fixed telecommunication network for the purposes of interconnection or connection of facilities of the third generation mobile network;
- establishment and operation of a public mobile telecommunications network, designated as a third generation network and complying with UMTS standards, over the frequencies assigned under the License of the Telecommunications Office of the Slovak Republic;
- information society services;
- consultancy in the area of the public cellular radiotelephone network;
- consultancy in the area of the public packet network for data transmission.

Shareholder Structure

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

ZOZNAM, S.R.O.

One of Slovakia's most-visited Slovak internet portals, Zoznam.sk – www.zoznam.sk, operated by the Zoznam company, was established in 1997. It specialises in Slovak internet website search, and also offers internet users everything Slovakia's has to offer, all 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 the news server Topky.sk, which, according to market research carried out by Google.com in December, became the most sought-after medium on Slovakia's internet; Topky.sk also belongs among the most powerful media on Facebook in Slovakia. Specialised magazines focused on various areas (Mojdom.sk, Dromedar.sk, oPeniazoch.sk, Autoviny.sk, Feminity.sk, Baby-web.sk, Urobsisam.sk, PC.sk, PlníElánu.sk) provide additional content. Zoznam's product portfolio also includes the mail.zoznam.sk free mail service, Pauzicka.sk gaming portal, Rexík.sk website for children, Free.sk community portal for multimedia content sharing, and Kariera.sk job portal. A catalogue of companies, giving even small companies opportunities to present themselves on the internet in a professional way along with their contact data, is also an important part of the service portfolio of Zoznam.sk. Thanks to the ticket sale platform Predpredaj.sk, Zoznam.sk entered into a new market segment in 2012. This novelty item effectively put the support of media partnerships (communication of events and concerts and sale of tickets) under one roof. A new specialised magazine Kariérainfo.sk, offering users useful and practical advice and inspiration on employment law, was added to the product family. The Úschovňa.sk (Deposit.sk) project, was another addition to the communication platforms; it makes it possible to transfer files of up to 2 GB, with no registry or fees. Innovations also affected the advertising system adapted for advertisement carriers that are becoming increasingly attractive: mobile devices. The system can target advertising at particular types of mobile device or operating system, through which users visit optimised versions of Zoznam products.

An independent audit by Media research showed 2,171,789 RU (real user) visits to the Zoznam.sk portal and related products (excludingTopky.sk) in December 2012. In comparison to last year, the number of real users regularly visiting the internet portal Zoznam increased by nearly 420,000 RU, an increase in attendance of around 20%. The attendance of Topky was 1,557,637 real users in the same period, an increase of 22%.

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:
1st 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:
Tatrabanka, a.s., Bratislava branch, Bank Account Number 2624131673/1100

Corporate bodies:

The General Meeting is the supreme body of the Company Zoznam, s.r.o. The competence of the General Meeting is 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 to this office by the sole shareholder, the Company Slovak Telekom, a.s. The managing director is Ing. 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.

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 logos, MMS and ringtones. It ranks among the top companies providing mobile technologies and solutions. The Company offers high-quality, secure and proven solutions, tailor-made for projects requiring easily extendible functions based on 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:
Tatrabanka, a.s., Bank Account Number 2620748430/1100

Corporate bodies:
The General Meeting is the supreme body of the Company Zoznam Mobile, s.r.o. The competence of the General Meeting is 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 to this office by the sole shareholder, the Company Slovak Telekom, a.s. The managing director is Ing. 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.

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.

PosAm has been present on the Slovak and Czech IT market since 1990; in 2010 it became part of the Slovak Telekom Group. The main aim of the Company is to bring primarily corporate customers unique solutions using a vast array of information technologies. As part of its portfolio, it offers individual software development, its own application solutions, system integration, consultancy services, outsourcing, and infrastructure solutions. Partner relationships with global technology leaders, the innovation potential of management, a strong local team, and investment into employee education guarantee continuous advancement and top performance.
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 was the first Slovakia-based enterprise to receive the "Recognised for Excellence in Europe" award from the European Quality Management Foundation (EFQM). PosAm has been a full EFQM member since 2007.

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:
3rd January 1994

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 consists of three managing directors. Their powers are stipulated in the Memorandum of Association.

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.

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:
25th 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

Corporate bodies:
The General Meeting is the supreme body of the Company. Pursuant to Section 132 (1) of the Commercial Code, the competence of the General Meeting is 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 consists of two managing directors. The powers of the managing directors are stipulated in the Memorandum of Association.

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.

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.

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. Code of Conduct accents also security within data processing and their protection.

The underlying principles for decision-making for both managers and employees are morals, ethics, legal standards and corporate values. Increasing Company value and a 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 social corporate responsibility for 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 has been continuing in the sustainable development of an integrated management system, which it started to build in 2004. The final report prepared by TÜV NORD Czech confirmed the validity of EN ISO 9001: 2008 quality management system and EN ISO 14001: 2004 environmental management system certificates; it recommended issuing a new information safety management system certificate which is meant to be implemented according to the requirements laid down by the ISO/IEC 27001: 2005 international standard. The integrated management system is to complete the occupational safety and health protection management system in compliance with the OHSAS 18001 standard.

The subject of the certification is “Development and Provision of Data Services, Desktop Services and LAN Services including Helpdesk. for Business Segment Clients in Business and State and Public Administration”.

In an effort to provide high-quality advanced services to its customers, Slovak Telekom has continuously been improving its processes. The Company uses the Lean Six Sigma methodology, achieving positive results. Additionally, Slovak Telekom cooperates with its subsidiaries, which are a part of the Deutsche Telekom Group, using external education provided by the German company UMS.

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)
- Medzinárodný klub SR (International Club of SR)
- 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)
- Slovenská asociácia pre informačnú bezpečnosť – SASIB (Slovak Association for Information Security)

Zoznam is an active member of IAB Slovakia

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

THE COMPANY'S GOVERNING BODIES

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 from 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
Chief Financial Officer and Vice Chairman of the Executive Management Board

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 to 2005 as Vice President Financial Controlling of T-Mobile International and from 2005 to 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 has been Chief Financial Officer, Vice Chairman of the Executive Management Board and Member of the Board of Directors of Slovak Telekom.

Dipl.-Ing. Branimir Marić
Chief Technology and Information Officer (as of 1 January 2012)

He completed the Technical University in Zagreb, Faculty of electrical engineering and computing (field of radio communication).
Branimir Marić began his career 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 a 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 he has held the position of Chief Technology and Information Officer.

Dušan Švalek
Chief Marketing Officer (until 30 September 2012)
Chief Mass Market Segment Officer (as of 1 October 2012)

He completed university education at the Faculty of International Commerce, University of Economics in Bratislava, and later studied Corporate Economy and Management at the University of Navarra.

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 from 2007 he was Chief Marketing Officer. From 1 July to 31 December 2010 he held the post of Marketing Director at Slovak Telekom.

Since 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.

From 1 October 2012 has been responsible for development and implementation of corporate strategy in the area of marketing, sales and customer service for mass market segment customers. He is also responsible for the management of the subsidiary company Zoznam.

Igor Matejov
Chief Sales and Customer Service Officer (until 30 September 2012)

His career started in the Accenture consulting company, where he worked as a manager for financial institutions and the 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 the 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 managed two areas – he was 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.

Ing. Ján Adamec
acting Chief ICT and Corporate Segment Officer (as of 31 March 2013)
Chief ICT and Corporate Segment Officer (as of 1 April 2013)

After graduating from the Faculty of Electrical Engineering at the Slovak Technical University in Bratislava, Ján Adamec started working in Slovenské telekomunikácie, a. s., in 1991 and remains employed in the company until now.

In the period from 1991 to 2012, he held several key positions with the focus on care for the corporate segment and key accounts. He participated in establishing the state-of-the-art Data Centre of Slovak Telekom. From January 2012, he worked as the Director for ICT Services and Business Sales.

Since 1 October 2012 he held position as the acting Chief ICT and Corporate Segment Officer.

Since 1 April2013 he has held position as the Chief ICT and Corporate Segment Officer.

JUDr. Ján Pitoňák
Chief Legal and Corporate Affairs Officer (as of 1 October 2012)

He completed his university studies at the Faculty of Law, Comenius University in Bratislava.

He started work for the Slovak Telekom Group in August 2000 in EuroTel (later T-Mobile Slovensko) in the position of Head of Legal Department, then worked as Executive Director of the Legal, Regulation and Regulatory Affairs Division, where he was responsible for managing the legal and regulatory agenda, wholesale relations with carriers operating in the telecommunications sector, and maintaining relations with public institutions. In 2001 he also became the Company's legal officer. In his ten years with T-Mobile Slovensko he gained practical experience in communication with regulatory authorities, in fields such as telecommunications law, economic competition, economic and technical regulation of the telecom sector and licensing. After the integration he held the post of Director heading the Corporate Service Division.

Since 1 October 2012 Ján Pitoňák has held the position of Chief Legal and Corporate Affairs Officer of Slovak Telekom. His responsibilities include regulatory and legal affairs, compliance, corporate security and public affairs.

Mgr. Petra Berecová
Chief Human Resources Officer (until 30 November 2012)

She studied at the Faculty of Philosophy at the Comenius University in Bratislava and subsequently at the Faculty of Law, specializing in 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 T-Mobile's Human Resources Division from 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.

Ing. Ladislav Petényi
acting Chief Human Resources Officer (as of 1 January 2013)

He studied at the Faculty of Electrical Engineering at the Slovak Technical University in Bratislava, and subsequently at the Faculty of Economical Informatics at the University of Economy in Bratislava.

He has been working in the company since 1993, and in his almost 20-year career he worked in several project and managing positions in various areas. He started in technology, continued with strategy, then worked as a project manager for the SAP system implementation. Since 2002 he has led billing, his major achievements being the new billing system implementation, development of the Datawarehouse in revenue assurance, print shop outsourcing, and the implementation of several new payment methods for our customers. Later he steered the Save for Service programme and was responsible for the definition and implementation of saving measures; from May 2009 he was also tasked to manage the Controlling Subunit. He led the integration project from the end of 2009; his responsibility included designing the new integrated company organization, identifying integration synergies and selecting new managers, for which he was later honoured with the "Best Project Manager of the Czech and Slovak Republics" award.

Since July 2011 he has been responsible for managing the company-wide Alexander transformation programme.

As of January 2013, Ladislav Petényi was also appointed acting Chief Human Resources Officer.

BOARD OF DIRECTORS OF SLOVAK TELEKOM

Ing. Miroslav Majoroš - Chairman

Ing. Michal Vaverka – Vice-Chairman
(as of 17 September 2012)

Kerstin Günther
(as of 17 September 2012)

Dr. Robert Hauber

Ing. Martin Mác
(as of 17 September 2012)

Dr. Ralph Rentschler

Ing. Miloš Šujanský, PhD., M.B.A.

Other members of the Board of Directors in 2012:

- Ing. Martin Mác – Vice-Chairman (until 17 September 2012)
- Albert Pott – Member (until 17 September 2012)
- Ing. Róbert Sándor – Member (until 17 September 2012)

SUPERVISORY BOARD OF SLOVAK TELEKOM

- Dr. Hans-Peter Schultz – Chairman
- Ing. Michal Lukačovič – Vice-Chairman (as of 17 September 2012)
- Milan Brlej
- Mgr. Martin Habán (as of 17 September 2012)
- Ing. Ján Hláčik
- Ing. Július Maličký
- Cornelia Elisabeth Sonntag
- Ing. Peter Weber (as of 17 September 2012)
- Tanja Wehrhahn

Other members of the Supervisory Board in 2012:

- Ing. Katarína Lešková – Vice-Chairman (until 17 September 2012)
- Ing. Miroslav Galamboš – Member (until 17 September 2012)
- Ing. Ján Vozár – Member (until 17 September 2012)

02 TELECOMMUNICATIONS MARKET IN SLOVAKIA

MORE COMPETITION, HIGHER QUALITY SERVICES

LEGISLATIVE CONDITIONS

An amendment to Act 351/2011 on Electronic Communications was adopted in 2012, with the main objective of allowing complex electronic auctions for radio frequencies. Another purpose was to speed up the regulatory impact on the relevant markets.

MARKET REGULATION

2012 was influenced by intensified regulation in the wholesale market of calls from and to the fixed network. In the wholesale market of call origination, an obligation was subsequently imposed on Slovak Telekom to make a wholesale lease of a subscriber connection for resale, including the obligation to publish a reference bid. The changed regulatory position of the corporations in the wholesale market of the fixed network calls termination, after they were identified as significant market powers, and with the specific obligations imposed upon them, entailed changed conditions of interconnection with Slovak Telekom's fixed network towards the end of 2012. The Slovak Telecommunications Office continued preparations to introduce a purely theoretical approach setting cost-based interconnection prices of so called efficient NGN operator; the result of this should be visible in 2013. The Slovak Telecommunications Office intends to apply this model to the price of calls originating in the Slovak Telekom fixed network; in December 2012 it issued such a price calculation method for calls originating or terminating in the Slovak Telekom fixed network.

In 2012, the Slovak Telecommunications Office continued regulating mobile network interconnection pricing. It also issued a price decision that further reduced regulated interconnection prices.

Also in 2012, the Slovak Telecommunications Office went ahead with preparations for launching a tender to award free frequencies to mobile broadband services. Relevant public consultations were carried out at the end of 2011 and beginning of 2012.

As a result of judicial review of fees for extension of individual licences for key mobile frequencies, a new administrative procedure was initiated in order to set the amount of those fees. Subsequently, the Slovak Telecommunications Office suspended the procedure.

In 2012, the Slovak Telecommunications Office significantly supported the competitiveness of mobile services in Slovakia and the capacity of network providers to bring out innovative services by decreasing the recurring fees for using radio frequencies.

Again in 2012, the European Commission continued proceedings regarding the alleged misuse of the dominant position on the broadband internet access market as initiated on 8 April 2009. Slovak Telekom had been served a Statement of Objections, to which it responded on 6 September 2012. On 6 and 7 November 2012, Slovak Telekom representatives participated in oral hearings.

Towards the end of 2012 the Slovak Telecommunications Office started to regulate next generation optical access networks, despite having already published intent to regulate the networks of this wholesale market for physical access to fixed access infrastructure at the end of 2010. Slovak Telekom published the following three new reference bids regarding optic networks in December 2012: a) for a virtual unbundled access to optical subscriber lines in GPON architecture; b) unbundled access to optical subscriber lines point-to-point type in Active Ethernet architecture; and c) access to cable duct and related infrastructure for blowing-in of optical subscriber lines in both these architectures. Also in 2012, there were signs of intensifying infrastructure-based competition in these wholesale markets for physical access to fixed access infrastructure and broadband access, along with the retail market for broadband internet access. The market situation was affected by the fall of prices to their lowest levels, not only in the EU but in the entire OECD, hand in hand with the decrease of Slovak Telekom's market shares. In December 2012, Slovak Telekom filed a claim to the Supreme Court of the Slovak Republic against regulations imposed on such an intensively competitive market.

As anticipated in Act 351/2011 on Electronic Communications, in 2012 the Slovak Telecommunications Office re-assessed the existing obligations of universal service, and issued a new decision that determined the universal service provider and imposed certain obligations on this entity. Slovak Telekom has remained the only universal service provider, while the scope of the universal service has been significantly narrowed. Based on the revised universal service obligation, Slovak Telekom is obliged to provide equal access to telephone service, information service and subscriber list to those with health impairments, and to provide these subscribers with a special type of terminal equipment appropriate for their impairment. All previous obligations regarding the universal service imposed by the decision from 2006 were eliminated.

The Supreme Court of the Slovak Republic overturned the decision of the Slovak Telecommunications Office regarding compensation of net costs for universal service incurred between 2005 to 2006 and 2007 to 2008 and returned it to the Office for further administrative review at the first instance. The Supreme Court has yet not ruled on the lawsuit of Slovak Telekom against the decisions on net cost compensation for 2009 and 2010.

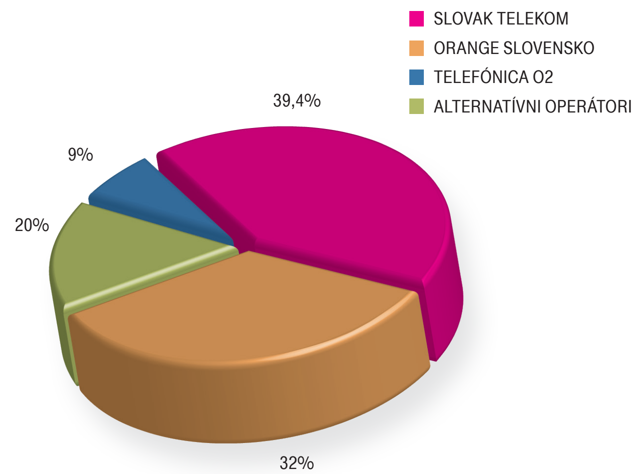
With respect to protection of economic competition in 2012, activities of Slovak Telekom were not a subject of investigation or intervention by the national regulatory authority for competition. Again this year, Slovak Telekom continued to defend its interests in court hearings reviewing the legality of the decisions of the national regulator in the past. In 2011 the Supreme Court of the Slovak Republic upheld the decision of the Regional

Court in Bratislava on invalidating the regulator's decision on the alleged abuse of the dominant position due to the failure to provide local loop access. Slovak Telekom had been fined EUR 29.38 million in this case; along with a fine of EUR 2.42 million in a case of alleged misuse of the dominant position for unlawful price margin squeezing. Both cases were returned to the national regulator for repeated review and the issuing of a new decision. In both cases the regulatory authority decided in 2012 to terminate the procedures with final validity, since it had not been proven that Slovak Telekom breached the law in any way. In October 2012, the Supreme Court overturned a decision imposing a fine in the amount of EUR 332 thousand on Slovak Telekom for misusing the dominant position in reserving connection points for the ST network. The reasoning of the Supreme Court decision lies in the national regulator's erroneous procedure and decision. At the end of 2012, the national regulatory authority paid back the fine to Slovak Telekom and it is obliged to decide in the case again.

TELECOMMUNICATIONS MARKET DEVELOPMENT

The total estimated revenues from sales in Slovakia's telecommunications market was EUR 2.13 billion in 2012, with a year-on-year decrease of approximately 0.6%. Comparison with the previous year shows that the highest revenue growth in absolute numbers was in the segment of internet services. In 2012, the Slovak Telekom Group maintained its leading position with its market share of 39.4 % of consolidated revenue.

MARKET SHARE OF INDIVIDUAL TELECOMMUNICATIONS OPERATORS IN 2012 (IN %)



SOURCE: SLOVAK TELEKOM, A. S., ORANGE SLOVENSKO, A. S., TELEFÓNICA O2, A. S. AND INTERNAL QUALIFIED ESTIMATE BY SLOVAK TELEKOM, A. S. FOR ALTERNATIVE OPERATORS.

The revenues from fixed network voice services market continued to drop as a result of substitution by mobile voice services and voice services based on IP or through broadband internet. Slovak Telekom, as the biggest provider of fixed network services, aims to stabilise these revenues thanks to the best possible customer-oriented service and provision of voice services along with other data products.

Slovak Telekom, providing services through its fixed network, registered a total of 811 thousand voice line accesses (including Voice over Internet) at the end of last year. The decrease in the number of customers of fixed voice services occurred primarily in the segment of traditional voice services.

The broadband internet connection services market continued to grow in 2012. However, from the year-on-year perspective the trend slowed, with the overall estimated number of customers coming to almost 1 058 thousand, a year-on-year growth of 8.8%. The estimated penetration of broadband connections thus increased to approximately 45% of all households in 2012. The biggest dynamics occurred in connections based on wireless technology and optical fibre connections. In 2012, the operators continued to invest in expanding coverage and improving access infrastructure quality. Those efforts were manifested in increasing accessibility of services and higher access speed for end-customers. The acquisition of local internet providers by regional and national players also continued in 2012. This process brought with it product standardisation and higher-quality customer services.

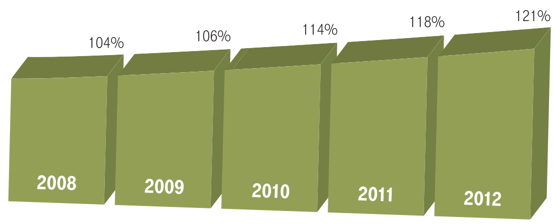
Slovak Telekom promotes services based on modern optical fibre technology in the broadband connection market. The Company undertook a gradual and controlled migration of customers to this technology, as reflected in the continuously improved availability of services based on this technology, accessible to 360,000 households at the end of 2012.

By the end of 2012, the estimated number of active mobile communication service customers was approximately 6.52 million users (including Sky Toll SIM), indicating a penetration of mobile services at the level of 121%. Increasing market competition and more attractive offers to customers, primarily in the segment of voice services, were the main drivers of the overall drop in prices. Further causes included reduction of wholesale interconnection fees charged among operators, decrease in revenues from roaming as a result of price regulation, and less voice traffic.

In contrast, continuing customer migration to the invoiced services segment and significantly growing penetration of mobile data services were the main areas of revenue growth in the mobile market.

PROOFREADERS NOTE: THE GRAPH SHOWS 2008-2012

INCLUDING SKY TOLL



Digital and Interactive Content Services

In digital and interactive content services, Slovak Telekom operates in the market of paid television, and in the on-line internet service market the Company operates through its subsidiaries Zoznam and Zoznam Mobile. In addition to expanding the existing (traditional content portal) services, one key characteristic feature of Zoznam and Zoznam Mobile operations in on-line services was the introduction of new products oriented at services, like Úschovňa.sk, Dopytovač.sk, and Boomer.sk. By launching the Magio TV Go product with Magio functionality allowing for watching selected TV programs on any device with internet access, we present the market with a vision of interactive connection of the online and mobile world with the world of television services.

In 2012, Slovak Telekom further developed its Magio service in the paid television market. The accessibility of this service after the launch of Magio Lite has significantly increased, which reaffirms our leading position in the IPTV market. With the launch of new functionalities, such as Archív or Magio TV GO, this service is set to become a core service of digital entertainment and interactive content for the future as well. By the end of 2012, Slovak Telekom digital television Magio and Magio Sat was being used by more than 175 thousand customers.

Data and Information-Communication Services

In 2012, Slovak Telekom retained its leading position on the market of data services for business clients. On the growing market of ICT services, IT and data communication services are converging as they have in the home entertainment market. For this market, the Company concentrated on providing comprehensive added value ICT services 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 Number 1 player on the Slovak telecommunications and IT services market. The common denominator is mobilising personal, social and business contacts through fixed and mobile networks.

In the last four 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, the mid-term strategy of Slovak Telekom for the upcoming 4-5 years is based on four pillars, with the core objective to retain the value of basic voice services so that the Company can further grow in broadband, TV and IT services.

The first pillar is based on increasing the value of subscribed mobile service customers with the lowest possible decrease in invoiced service value, and on acquiring pre-paid customers, partially through extensive sales and distribution networks of other companies (e.g. hypermarkets) and co-branding with the Disney Corporation. The goal is to stabilise market share in the mobile operator market. The fusion of the T-Mobile and T-Com brands and the creation of a new Telekom brand under the business name Slovak Telekom opened up the possibility of enjoying the benefits of combined fixed and mobile product packages. The Company is interested in further extension of the scope and number of mobile services used 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. Expansion of the portfolio by converged fixed-mobile voice services, traffic stimulation within the ST network, and gradual migration to voice services via broadband will require building of sufficient residential broadband access coverage.

The area of broadband internet and paid television access represent part of the second pillar. The objective for 2013 is to improve our mobile internet position. The Company plans to achieve this primarily through further extending the 3G network and increasing its speed, boosting sales of intelligent telephones with internet access, optimising the product portfolio including value-added services, and by efficient use of an integrated sales approach to customers. LTE network development brings high expectations. LTE is a fourth generation network that should shift the quality of services provided one step forward towards the customers. Regarding fixed broadband, the Company will focus on maximising 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.

As in 2012, the IPTV portfolio will be further enhanced in 2013 by value-added features, including an expanded channel offering (HD and premium packages) and interactive internet and home entertainment features. The Company's goal is to increase the number of customers using TV along with other services through targeted cross-selling.

The third pillar of the Company's strategy for the upcoming years is based on growth in provided IT services and new services "beyond the limits of traditional telecommunications services". The areas of planned revenue growth in IT services include 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 through integration synergies within the Slovak Telekom Group. Emphasis will be placed on reducing operating costs and more efficient use of capital investments in information technologies and fixed and mobile networks. Further increase in technology cost efficiency will allow for gradual decrease in the complexity of infrastructure solutions, system consolidation, and phasing out of outdated or unsupported platforms.

03 REPORT ON THE COMPANY'S BUSINESS ACTIVITIES

PRODUCTS AND SERVICES

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 terminal 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).

CUSTOMER CARE SERVICES

The Company's main objectives include increasing customer care quality as well as quick and comfortable ordering and administration opportunities for services provided to new and existing customers.

The main activity of the Contact Centres Section is providing services to customers in call centres. Call centres operate several toll free numbers, where customers can get any necessary information on Company services and products. Information and requests related to the Company product portfolio are available at the toll free number 0800 123456. In 2012 customer care elements continued to be grouped at this line for customers of both fixed and mobile services.

The 0800 123777 line is the contact point for customers with technical problems, faults or malfunctions. The main quality criterion for this line is speed of solution and customer satisfaction with the given solution.

For those who prefer not to communicate via call centres, the Company provides communication through e-mail or chat on the website.

Further harmonisation and optimisation in 2012 also occurred on assistance lines for customers, where they can obtain information on telephone numbers as well as various information on culture, transport, tourism, and similar things.

WHOLESALE SERVICES: SUPPORT OF COMMUNICATION IN THE REGION

Results achieved in 2012 in wholesale services confirmed the Company's position as a major player in providing services to other telecommunication operators in the market. It was a successful year for the Company, despite complex conditions of growing regulation and decreasing wholesale unit prices. The company exceeded projected service revenues from wholesale partners by almost 8%. The biggest contributors were innovations of wholesale products, new cooperation models and expanded cooperation with existing partners, as well as development of cooperation with new customers.

The Company achieved excellent financial results in both main categories of products: sale and rental of data services and infrastructure, and providing voice services to national and international partners.

Data Services

In 2012 the Company presented several new reference offers in wholesale data services for providing access to existing access infrastructure. These cooperation models have opened new possibilities to wholesale partners who wish to use the Company's existing infrastructure for the providing of their own broadband and voice services to end customers.

In addition to the successful transport services Carrier Backbone and Carrier Link provided on SDH technology, there has been a significant increase of interest in Ethernet-based data services. Company revenues from the Carrier Ethernet service have risen by more than 60% compared to the previous year. In 2012 wholesale partners continued to be interested in broadband ADSL access to the internet network. By the end of the year the Company had sold over 60 thousand accesses to wholesale partners, with an increase of service revenues of 33% over the previous year. The Company has also achieved a significant increase in providing access to the international IP network. The IP transit capacity volume has more than doubled to over 9 Gbps, and ISP Connect service revenues increased by 23% over the previous year.

Planned revenues from international data services have been exceeded, mainly thanks to sales of Carrier Backbone solutions. The Company PoP in Kiev continued to serve as a bridge between Ukraine and Western Europe, allowing satisfaction of requests from foreign partners for data services termination within Ukrainian territory.

Voice Services

In 2012, the main influence on national voice services was implementation of regulations set out by the Telecommunications Authority of the Slovak Republic. Due to a significant fall of regulated switching fees throughout the year, the Company was able to achieve savings of nearly 3% in costs of calls terminating in mobile networks in Slovakia. The Company prepared a new reference offer for networks switching, significantly simplifying the regime of switching voice signals with networks of other operators in Slovakia.

In international voice services, the Company developed cooperation with 24 new business partners during the year. As a result, there were more business opportunities in international voice transit traffic (hubbing), and planned hubbing revenues were exceeded by 2%. In 2012, mobile traffic generated for over 88% of the total international voice transit traffic, which confirms the position of the Company as a quality provider of voice transit service.

VOICE SERVICES: A NEW EASY PORTFOLIO AND TWO FAMILIES OF PLANS

The voice services portfolio underwent significant changes the whole year. A series of new products was launched in the first quarter with two new prepaid cards, then in June a new list of prices for Fix programs went into effect, and in summer Telekom introduced new families of plans for the mass market.

Prepaid Cards

In the first quarter, Telekom introduced two new prepaid cards, modifying original prices for calls and offering a series of completely new benefits. Apart from low prices for calls, they also offered low SMS prices, and are fully functional for mobile internet, including sufficiently big data packages.

Easy Free is a prepaid card designed for calling to all networks and for mobile internet use. Additionally, the customer receives two bonuses when recharging: calls from 9 cents to all networks and free mobile internet for 7 or 15 days.

Easy Time, introduced at the end of March, offered as a principal benefit a unique price for calls to both fixed and mobile Telekom networks: 15 cents. It also provides affordable prices for calls to all networks (12 cents per minute) as well as for SMS (6 cents).

Both prepaid cards introduced a new price scheme for mobile internet: all customers have the profile SURF1 activated, provided that they spend no more than 50 cents for browsing a day. If they need more data, they can activate a larger data package.

Telekom supported the successful introduction of new Easy cards in its Christmas campaign by creating a special offer for new customers, who could buy one of five mobile phones and receive back the price of the phone in a form of extra credit.

Fix Plans

Fix Plans remained a stable part of the portfolio. They continued offering an appropriate combination of a monthly plan with the character of regular topping-up of credit, which customers can use for services of their choice. The standard offering includes the following programs: Fix 0, 9, 12 and 16, with the higher plans having various benefits, such as extra credit.

In June 2012 Telekom updated the price scheme for Fix Plan calls, unifying call prices at 19 cents per minute.

Monthly plans (mobile network)

The biggest innovation in monthly plans was the introduction of new Happy plans. This series of five plans ranges from the smallest Happy XS, through the bestsellers Happy S and Happy M, to the higher plans Happy L and XL.

Each plan includes some type of unlimited calls – at least to the Telekom network – during weekends and bank holidays (Happy XS), or unlimited calls to the Telekom network all day (Happy S, M and L). The highest plan Happy XL includes flat calls to all Slovak networks. All Happy plans contain mobile internet, too – from 100 MB up to an Unlimited mobile internet option. Further, the plans include a certain number of minutes to all networks or Unlimited SMS and MMS.

Happy plans have also made it possible for customers to purchase a discounted phone in an alternative way – instead of paying all at once, the price for the phone is spread over monthly instalments, so a customer with a smaller monthly plan had the chance to purchase a more expensive, better-equipped device under better conditions.

The monthly plans offering continued to feature four Podľa seba (My Choice) options, of 1, 3, 5 and 7 depending on the number of packages. This lets customers combine services of their choice in a monthly plan: they can decide whether they prefer minutes of calls to the Telekom network, to other networks, text messages or mobile internet.

The monthly plans offering continues to include the older plans Relax and Viac (More), and the Student plan with no monthly fee introduced last year. Lower-price plans include Program 40 and Bez záväzkov (No Obligations) for customers with more basic needs.

Discounted phones for mobile plans

During 2012, devices of various international brands were part of promotional offers. There were two strong trends: sales dominated by smartphones (nearly 75 % of all the phones sold) and touch-screen devices.

Last year's most successful models were the HTC Desire C, and the ranges of the Sony Ericsson Xperia, LG Optimus and Samsung Galaxy. Telekom included several flagship models in its offering, such as the Samsung Galaxy SIII, LG Optimus L9, Sony Xperia T, Apple iPhone 5 and HTC One X.

Last year's offering was dominated by devices using the Android operating system, however, gradually it was complemented by devices using OS Windows, including the new Nokia Lumia series.

Roaming

The voice plans portfolio in roaming features several options: 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 Naj roaming was introduced, with lower prices for outgoing calls to the EU.

Monthly plans (fixed network)

Residential voice plans have largely stayed the same. Through the year they were available in promotional offers with lower monthly fees or in so-called double versions (with a doubled amount of free minutes).

Slovak Telekom continued to develop its initiative for cheaper calls to mobile phone numbers through different special offers, in which customers can call mobiles from 9 cents per minute.

Selected special offers were paired with gifts for special prices, such as a digital camera or a multifunction printer.

The Christmas campaign introduced the first flat plan for fixed lines – Doma Nekonečno (Home Unlimited) – that provides calls to fixed and mobile numbers for a single monthly fee, while for the first time customers could make unlimited number of calls to mobile networks, too.

INTERNET SERVICE: FASTER NETWORKS AND INTERNET INCLUDED IN PLANS

Thanks to innovations in technology and acceleration of both fixed and mobile networks, the portfolio has undergone changes, and customers could take advantage of faster internet connection for unchanged plan prices.

Fixed internet

In 2012 Slovak Telekom carried out one of the biggest ADSL network accelerations in its history, as reflected in the potentially higher speeds of individual internet plans. The theoretical maximum speed has increased from 2 to 5 Mbps for the plans Turbo 1 and 2, from 3.5 or 6 to 10 Mbps in the case of Turbo 3, and the new theoretical maximum for Turbo 4 is up to 20 Mbps (as opposed to 10 Mbps previously).

Sales of Turbo portfolio plans with new maximum speeds started in June 2012, and were provided to the rest of the customers during the summer.

Promotions Magio internet plan also included special benefits: customers of the higher programs could get a tablet or notebook for a special price of no more than EUR 5.99 per month during the first 6 months, or from EUR 5.99 per month during the entire two years in case of the basic plan Turbo 1.

Mobile Internet

In 2012 Slovak Telekom provided for further acceleration of the 3G network and gradual installation of HSPA+ extensions with maximum data download speed of 21 or 42 Mbps (while increasing data upload speed to 5.8 Mbps).

The offer continued to include the Unlimited mobile internet plans, which gradually became clear best-sellers compared to older data plans, offering 500 to 20,000 MB of data for a monthly fee.

However, plans with basic configurations including data made the biggest progress in mobile internet. As more and more customers interested in the monthly plans of Podľa seba (My Choice) were opting to include a mobile internet package, Slovak Telekom started to offer mobile internet with the new Happy and Biznis Star plans – for all types of plans, even the simplest. The amount of data varies from 100 MB up to Unlimited mobile internet, and the Company offered customers with the latest smartphones the opportunity to connect to the operator's broad coverage 3G network.

Finally, thanks to new packages and price schemes, the penetration of mobile internet on Easy Free and Easy Time cards improved.

Data roaming

Along with the Travel & Surf series of plans, with three types of plans based on an initiative of Deutsche Telekom, Slovak Telekom presented five new plans for the transfer of mobile data abroad.

The three plans of EU Naj Data are designed for surfing in the European Union countries, Island, Norway and Lichtenstein. The smallest plan EU Naj Data S offers the possibility to surf for one hour with no data limit; customers have available the speed of 128 kbps. For a flat rate, on the EU Naj Data M plan customers get 100 MB of data for 24 hours and on EU Naj Data L 200 MB for a week.

At the same time, Telekom upgraded the portfolio with two plans for surfing in countries outside the EU. Tourists can now surf for less in such destinations as Croatia, Turkey, Egypt and Tunisia. Holiday Naj Data S offers unlimited surfing for one hour at the speed of 128 kbps, and Holiday Naj Data L unlimited surfing for a whole day (24 hours) at the same speed.

In summary, for summer and Christmas season 2012 Telekom offered no less than eight data plans for use in roaming and for the first time customers could surf without worries on their smartphones or tablets for several euros.

Navigation via mobile phone

In 2012 Slovak Telekom continued to provide the successful 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, with lane assistant, 3D maps, online information about towns and weather and even navigation in Slovakia that includes traffic information.

Promotional equipment

During 2012, Slovak Telekom introduced several new mobile internet modems. This new hardware was intended mainly for extensions to 3G networks (HSPA+ 21 and 42 Mbps) in order to enable customers to use higher speeds in increasingly broad coverage.

In the course of the year, Slovak Telekom also offered several promotions on notebooks to fixed and internet plan customers. The Company is placing more and more emphasis on promoting tablets: in the spring campaign this was mainly for business customers, in the summer and Christmas campaign there were in most cases three tablets of various brands available for the mass market segment. Customers could choose among tablets with 7-inch screens from ZTE, Huawei or Samsung Galaxy Tab, and the category of 10-inch screens included models from the Samsung Galaxy Tab series or the successor to the Samsung Galaxy Tab 2 10.1.

BUSINESS CUSTOMERS PORTFOLIO: BIZNIS STAR AND NEW SOLUTIONS

The biggest innovation of 2012 was the introduction of brand new monthly Biznis Star plans. Additionally, Telekom also introduced a new calling plan to the Business line portfolio, updated several services, and suggested a data protection solution for smartphones and tablets.

Mobile networks

Along with Podnikateľ (Enterpreneur) plans offering the possibility to put together a comprehensive package of services for a uniform monthly fee with free minutes, data services, free SMS or Unlimited calls packages, Telekom also used several special offers to enable even more efficient use of this program – as in combination with Unlimited mobile internet for a lower price. In spring, Telekom added a new function of data sharing and the possibility to take two promotional devices at a lower price – not only a smartphone, but also a tablet.

In September 2012 Slovak Telekom presented a new family of plans, called Biznis Star. It offers five plans from EUR 14.99 per month, with several components:

- a package of unlimited calls (either to the Telekom network or to all Slovak networks);

- free minutes to Slovak networks and those of EU countries (from 50 to unlimited);
- mobile phone internet (100, 500 MB or unlimited, depending on the plan).

Moreover, the monthly Biznis Star** plan fee includes SMS and MMS, and for Biznis Star*** the receiving of incoming calls abroad (150, 250 or unlimited).

Customers can buy Unlimited mobile internet for their Biznis Star plans at a lower price, and use the function of data sharing.

At the same time, the Biznis Star plan has cheaper calls to networks abroad, Biznis Star voice roaming (where a price is available of only 9 cents per minute for outgoing and incoming calls) and Biznis Star data roaming with several price levels and a set out amount of data.

In the second half of the year Slovak Telekom updated the service plans Firma/Firma Extra (Company/Company Extra), allowing corporate customers to use a single package of services and set according to a monthly fee. The following plans are available: Firma 199, Firma 329, Firma 459, Firma 559 or Firma Extra 829, and Firma Extra 1319 with a determined number of users (from 1-7 up to 1-60), depending on the plan. Along with calls in virtual private networks, they can also use mobile internet and other advantages.

Apart from bringing in the new Biznis Star plans and updating the Firma and Firma Extra portfolio, Slovak Telekom also introduced new service Management of mobile devices, providing safe remote access to company e-mails, calendar and contacts. This service aims to provide customers using smartphones and tablets with state-of-the-art security and protected company communication. The supported operation systems include iOS and Android, and company clients are able to manage appropriate applications on their employees' devices. The solution is compatible with the MS Exchange and Lotus Notes platforms.

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 a contract period of 12 or 24 months at a discount or with doubled free minutes. The plans Biznis Mesto (Business City) and Biznis Slovensko (Business Slovakia) with unlimited calls continue to hold a strong position in the offering. In its Christmas offer, Telekom included a new Biznis Premium plan, with a monthly fee covering unlimited calls to fixed as well as mobile networks in Slovakia.

Another comprehensive solution for small enterprises and self-employed people is Benefit, which combines voice services, DSL internet connection, 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, synchronising 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: MULTISCREEN TECHNOLOGY AND LARGER IPTV COVERAGE

In 2012, the dominant efforts in Slovakia's television market were devoted to spreading TV content to other screens outside the living room, in particular to tablets, smartphones and notebooks. In the course of the year, Slovak Telekom continued adding functions and enhancing the user experience, as has long been characteristic of Magio television.

As in all years, there was again a continuous effort to make the program selection more attractive, by adding and changing individual TV channels in response to viewing and viewer interest. New movies were added to the Video on demand service, which is becoming more and more popular. The Lite version of Magio TV allowed us to reach an even bigger group of customers in those areas where current infrastructure was insufficient to introduce IPTV technology. In general last year, the TV segment of Telekom services improved, in the third quarter achieving its biggest growth this fiscal year. As of 31 December 2012 Magio television services were used by more than 175 thousand customers, an increase of nearly 10% compared to the previous year.

The introduction of Magio TV Go has made it possible to watch digital TV not only in the living room, but also on other devices at home or elsewhere. Thanks to the Multiscreen technology, Magio TV customers can watch selected Slovak and Czech channels on such devices as a desktop computer, a notebook, a tablet or a mobile phone, through fixed or mobile internet connection. Magio TV Go has been launched in free pilot operation for IPTV customers, with the possibility to watch live broadcast of ten TV channels including Jednotka, Dvojka, TA3, TV Markíza, TV Doma, JOJ, JOJ Plus, Film Europe, ViasatNature and TV Óčko. Later, Magio Sat customers were also able to try out Magio TV Go for free.

In September, Telekom extended the coverage of digital TV Magio to areas where previously it had not been available for technical reasons. These areas showed significant interest in digital TV, but with the metallic network its installation was not possible. Thanks to the execution of recent acceleration of ADSL technology and the use of a single stream, it became possible to introduce a new option for Magio TV Lite that supported most of the favoured functions. Magio TV Lite service has mainly been provided in outlying regions, with a specific selection of programs, including regional television stations.

At the end of the year the Company presented a new offering combining satellite television and mobile internet in attractive packages. In case of simultaneous activation, customers got the services for a special price. The offering is ideal for customers who already have 3G or FLASH-OFDM mobile network coverage, who can use satellite television at the same time.

DEVELOPMENT OF DIGITAL CONTENT AND PREMIUM AND PAYMENT SERVICES: GREATER PRACTICAL INTERCONNECTION BETWEEN THE MOBILE AND ONLINE WORLDS

In 2012, in the field of premium, content, entertainment, payment and advertising services, Slovak Telekom continued with the initiative called the Digital Life Centre (DLC). The project's purpose was to consolidate business on three screens using both the cross-sell and up-sell effects among the respective environments. Customers had the opportunity to use numerous services on their PCs, on the internet (on the Zoznam portal), and on their mobile phones and tablets, with several services available even on television via Magio TV.

Mobile phones have increasingly taken on the role of remote control, access device, and above all electronic wallet in these environments (with especially large growth online). At the same time, new business fields are coming right into mobile phones, diversifying the existing mobile business. These include mobile advertising as well as applications, launched on the mobile portal and specialised for use on smartphones.

In 2012, Slovak Telekom developed a special mobile version of its corporate web site www.telekom.sk. When customers access it, it automatically detects the user's presence on the mobile device, offering the mobile version of the site (along with the icon to download and use it). It provides such advantages as automatic registration for e-care services like invoicing, credit, usage and one-click ordering of services, and downloading of Telekom' applications. At the end of 2012, more than 10% of all accesses to the Slovak Telekom's corporate web site came from mobile phones.

The DLC concept had success in 2012, with the shift to online and payment services. This diversification of declining and traditional business activities (download of images, ringtones, and calling tones) was a way not only to stabilise but to increase turnover from such services.

Telekom in Mobile and Tablet

The number and types of mobile payments (micropayments) advanced and their customer numbers and turnover increased in 2012; they became successfully established as an alternative to internet shopping. Almost all district seats and even many smaller Slovak towns use some type of SMS parking; the regional cities use also SMS payments for public transport. Other services were also added, such as mobile-based insurance, mobile gambling and betting, and purchase of small products on the internet. Little by little, customers learned to use new service types; for example they started to pay for e-books via mobile. Total turnover from micropayments saw a year-on-year increase of 22%, with more than 350 thousand customers using them.

Other successful premium services include services for third parties: audiotext for mobile customers, where services via the new TV were added, which helped cause a year-on-year increase of 5%.

As for premium SMS services, one-off projects were more successful, such as the customer competition project with TV JOJ with more than 200 thousand customers participating.

A mobile web for customers, accessing www.telekom.sk via mobile phone, was launched in October; various categories of smartphone applications constitute a significant part of it. Co-operation with Ikar Publishing House, where Slovak Telekom's customers have been able to download more than 200 titles of e-books for a mere one euro from December 2012, was among the most successful.

Telekom Online

A series of measures and optimisations, including a mobile version and launch of chat and "call me back" functions, was undertaken on Slovak Telekom's corporate website.

E-shop optimisation was mainly intended to reduce the number of clicks. Login was simplified in the e-care area and some services were added there.
Online has become a phenomenon, as several figures attest. Gemius methodology showed that www.telekom.sk was visited by nearly 900 thousand visitors per month, of which 10% accessed the web via mobile devices with SIM cards; this was only 2 to 3% at the beginning of the year.

Permanent attendance-rate growth from the beginning of the year indicates a shift of to this channel by customers who want to obtain information, take advantage of self-service under e-care, or shop online. Such a shift of visitors creates opportunities for further activities in the corporate web area and a general shift to e-sales or e-care activities.

ZOZNAM.SK

With its attractive portfolio of over 50 products, the Zoznam internet portal has been one of the strongest players of the Slovak internet with a stable market position. The Topky.sk portal is one of the most popular, and according to a survey by Google.com in December it has become the most sought-after media on Slovakia's internet. At the same time, Topky.sk is one of the most influential media on Facebook. In 2012 Zoznam.sk became a leader in the segment of online maps as well. An AIM monitor survey held in October confirmed that Mapa.sk is the most used service on the Slovak internet. Users tend to visit the home page most often, which is a gateway to the internet in Slovakia and helps users to better find their way around. The home page directs users to the catalogue search, with user-friendly information sorted in catalogues of company pages, telephone numbers and dictionaries. The content magazines are a more and more important part of the product offering, providing their readership with interesting topics from various areas. Top content magazines include Feminity.sk, Dromedár.sk, oPeniazoch.sk, Baby-web.sk, Hudba.sk, PC.sk, and the magazine for seniors PlníElánu.sk. Apart from magazine content, Zoznam.sk provides other useful websites. These help finding work (Kariéra.sk), making translations (Webslovník.sk), and getting information on public transport (imhd.sk), service providers (Dopytovač), TV programming (Telkáč.sk), or entertainment (Pauzička.sk and Rexík.sk).

In 2012 Zoznam.sk added a new magazine to its content magazines called KariéraInfo.sk, providing its users with useful and practical advice and inspiration on labour relations matters. The new magazine is closely interconnected with the Kariéra.sk portal, which apart from standard job search portal features also articles on the job market. It is a unique specialised project, providing users a broad range of expert data on labour relations, understandable and prepared in cooperation with experts on personal management.

At the beginning of the year Zoznam.sk presented its own solution for the transfer of large attachments. Thanks to a new product in the portfolio – the Úschovňa.sk ("Storage room") service – it is possible to save and transfer files of up to 2 GB, free from any fees or registration. The minimalist and modern design of the service offers an attractive advertisement area, which is currently a popular means of online advertisement. Instead of standard banner positions, a more flexible area is available, corresponding to a full screen background.

Zoznam.sk has redesigned its telephone number search service. The new version of the website does not have a specialised version for mobile phone interfaces; its optimal website view on mobile devices is achieved through the use of so-called responsive web design. The new design of the Telephone directory adjusts automatically to the size of the screen on the device used. Individual elements of the web page layout move, in order to enable web page viewing on smaller screens.

Furthermore, in 2012 the portal introduced a platform for online ticket sales called Predpredaj.sk. This allows organisers of cultural, sporting or other events to offer everything in one place: both sale of tickets and the media campaign.

The internet portal Zoznam.sk has been active on the mobile web since 2009, when it gave its users access to the content of its top projects in an interface designed for smaller screens. Currently, the portal is gradually adapting its mobile projects to state-of-the-art design trends. Mobile versions of Topky.sk, Dromedár.sk, Môjdom.sk, Športky.sk and Hudba.sk magazines share a common design, to provide a consistent user experience. Content browsing is more adapted to touch commands; the new versions put the main emphasis on photographs.

Along with introducing new products and redesigns, Zoznam.sk has also innovated its advertisement system. New features make it possible to situate advertisements effectively not only in interfaces designed for desktops and notebooks, but also for various types of mobile devices. The advertisement system takes into account the type of mobile device or operating system used to visit products from the Zoznam portfolio. This is a very effective means of communication, focused on a particular user.

ICT – GROWTH DESPITE MARKET DEVELOPMENTS I

2012 was not an easy year for the ICT market, due to continuing market stagnation. Companies consider IT investment very cautiously, as well as the expense of changes related to outsourcing IT tasks. The behaviour of companies was considerably affected by the situation on their markets, which was worse than originally projected.

Slovak Telekom introduced new ICT services and solutions that had an immediate response from our customers. The most important event was the market introduction of the TelekomCloud service. This was another important and significant step in the long-term strategy for the provision of complex portfolio of value-added ICT services. Through the TelekomCloud service, the Company started providing expert cloud computing services in Slovakia. In the first phase it provides the so-called Infrastructure as a Service, i.e. rental of computing performance with the option of renting an operation system. The Company is the only in Slovakia offering the possibility to select a virtualisation platform (the so-called hypervisor), high disk space for customer data, and a complex automatic self-service portal, enabling customers to manage their own virtualised server infrastructure at any time day or night. The solution contains a number of free functions for which competitors usually charge. Slovak Telekom implemented the technology platform in close cooperation with its subsidiary PosAm and world-renowned providers of cloud computing technologies. At the end of 2012 and after no more than 3 months of its operation, the Company decided to carry out activities leading to the platform's expansion, mainly due to the great customer interest in this type of service.

In addition to the TelekomCloud service, Slovak Telekom introduced solutions to the market related to management of mobile devices, protection of customer web portals against DDoS attacks, optimisation and monitoring of operation in customer LAN and WLAN infrastructures, complex providing of information and communications systems, and similar services. The solution for the management of mobile devices had the biggest response from companies concerned about potential leaks of confidential company data through smartphones and tablets.

Major new customers have been accessing the modern Telekom Data Centre launched by Slovak Telekom in 2011. One of them is the company AZET, one of the most important players on the Slovak internet market. In spite of the fact that several competitors' data centres were created in a short time on the market, our customers appreciate the quality of the infrastructure in the data centre and the know-how of Slovak Telekom. Through the combination of the largest data infrastructure, the TelekomCloud service and other IT services and solutions, we are able to cover all our customers' information and communication needs.

POSAM

Offer for the segments

Banks

PosAm provides its banking sector clients application solutions for key banking processes, storage solutions, IT infrastructure consolidation and outsourcing.

Regarding software solutions for the banking sector, the Company concentrates on digital communication and on increasing the effectiveness of client contact at branches. It takes an innovative approach to issues related to electronic document authorisation and management identity. Its added value lies in increased safety, protection of reputation, higher quality of sales processes, and increased prestige.
In projects of desktop, server or storage infrastructure construction or consolidation, it combines state-of-the-art technologies from Hitachi Data Systems, HP, IBM, Bull and Citrix and the knowledge of our consultants and experts.

Insurance Companies and Financial Institutions

PosAm provides the insurance and financial sector with software solutions and services focused on supporting key customer-related sales processes.

For commercial insurance companies it provides software development and services, supporting mobile sales through sales representatives, customer relationship management and the issue of claim settlements. Covering these main processes significantly contributes to winning new clients in the most effective way, application of innovations in sales network management, rapid introduction of sales of new insurance products, and increasing customer satisfaction and loyalty. Support of sales through sales representatives includes complex technical and methodical customer care for the insurance system operation and its users; today, this network has more than 20 thousand users.

A unique area is software provision for betting companies, focusing on online services, where the number of customers is largely exceeding tens of thousands of users per day.

Industry

For the segment of industry and utilities, the Company delivers software solutions, creates infrastructure solutions and provides outsourcing services.

The provided software systems are designed for executive management, authorisation of persons and signing of documents. In the area of creating and transforming IT infrastructure, the Company specialises in storage solutions and complex consolidation of IT infrastructure. Outsourcing services are oriented on IT operation services and help desk service.

Executive management covers processes starting with the collection, classification and registration of requests, through planning and management of service tasks, up to monitoring and enforcement of their completion. It helps customers to achieve automation, optimisation and higher effectiveness when managing their workers, and higher quality of

services provided.
Providing an authentic signature by means of a signature tablet and its use for the authorisation of persons or signing documents brings about new possibilities in digital communication. An authentic digital signature completely eliminates the need to use paper documents, both in the office and in the field. One big advantage is maintaining traditional procedures while making the whole process quicker, more effective and cheaper.

Telecommunications and Media
PosAm's areas of activity in the telecommunications segment include application solutions on the SAP platform, solutions for core IT infrastructure and operation-oriented services.
Thanks to solutions on the SAP platform, customers can use professional services and powerful solutions supporting a whole range of company procedures. When creating solutions for data storage, management and protection, the Company makes use of primary systems and software of the leading international company Hitachi Data Systems.

State Administration and Local Government
In the public administration and local government segment, PosAm has, in the long-term, focused on software development and solutions oriented on supporting the main processes in public finance and the issue of providing operating services, and has also been active in health care.
Regarding public finance, PosAm software solutions cover creation, the adoption, modification, use, monitoring, assessment and consolidation of budgets on all levels of public administration, as well as local government. Budgeting in state administration is provided with the help of a PosAm solution: the budget information system (RIS), which is indispensable for the operation of the state treasury.
Furthermore, PosAm information systems provide processes for the collection and use of information in the register of financial statements, for the coordination, preparation, performance and assessment of government audits, and for the management of development funding.
In the health care area, the Company implements solutions for basic health care registers, and focuses on the health care terminology that is a necessary precondition for eHealth development.

Solutions and Services Offers

Software Solutions
PosAm concentrates on developing complex information systems based on individual client requirements, and on implementing its own innovative solutions.
It provides professional services covering all phases of creating a solution: from consultations and analysis, through architecture design, up to development and installation of the solution.
The Company specialises in budgeting, automation of sales and settlements of claims, management of IT services, work force management, authorisation of persons, signing of documents and automation of processes related to managing a company's document. Clients of PosAm include companies from the segments of public administration, insurance, banking, telecommunications, industry and network industries.

Infrastructure Solutions
PosAm designs, implements, operates and services separate or integrated infrastructure features, with the main focus on consolidating information systems. Infrastructure solutions also include application delivery, data storage and management, backup and archiving, and design and implementation of security features for internet access. PosAm uses progressive technologies from its partners: Cisco Systems, Citrix, Hitachi Data Systems, Hewlett-Packard, IBM, Lenovo, Microsoft, Oracle and VMware.

Consultation Services
PosAm provides consultation services as an integral part of professional services oriented on company processes and their support. The importance of consultation services grows in proportion to a problem's complexity and the influence the solutions on the company's operation.
Consultation services are the very first step on to achieving customer satisfaction. PosAm is able to follow up by taking on the responsibility for and managing the remaining phases of the entire process, including design creation and production and delivery of solutions, as well as their integration in the customer environment or operations.

Outsourcing
PosAm provides operational IT services, customer care, warranty and post-warranty servicing to leading companies in Slovakia from the energy, industry, telecommunications, banking and insurance sectors.
The transformation process includes optimisation of internal processes and management systems, with the Company providing professional advice and suggesting optimal solutions. As a result, clients get service of higher quality and effectiveness, allowing them to concentrate on their own business and strategic development, while leaving these routine activities to PosAm.

TECHNOLOGIES AND NETWORKS

2012 was very dynamic for networks and information technologies, characterized particularly by technological transformation, optimisation, and making activities more effective. The launch of a network transformation programme (NITR), transformation of technical services (TST), and follow-up to NG CRM programme realisation were significant steps. In the field of technologies, the company focused primarily on further increase in 3G coverage and DSL speed. In the IT area, it included consolidation of data centres and transformation of the IT organisation to reflect the processes.

The NITR programme (IP and network transformation programme) is the most important step for the upcoming years of 2012 to 2015. It covers almost all areas of network and service platforms, and its primary objective is to reduce indirect costs. This will be carried out by reducing electric power consumption, the occupancy of technology space, the quantity of blackouts, and the number of supplier contracts for technology and maintenance support with suppliers, enabled by the complete elimination of network or service platforms and general network and IT architecture simplification thanks to technological migration to IP.

TST (Transformation of technical services) is another key programme. It is intended to enhance competitiveness and customer satisfaction. The top-priority aim is to create more effective and customer-oriented technical services, and provide services to customers and repair faults in the shortest possible time. Initial results can be seen in shorter fault clearance times and significant shortening of service installation time.

Mobile networks

The year of 2012 was characterized by a marked growth in data flow through mobile networks. In response, the Company launched three key projects: increasing 3G coverage, building BTS optics, and implementation of new base GSM and 2G technologies. The 3G coverage increase is indispensable for the enormous demand for data service usage; 77% coverage of the population was achieved by the end of 2012. The number of HSPA+ locations also continued to grow; the HSPA+ for data download speed of up to 21 Mbps was applied to all 3G Node B base stations, and HSPA+ Dual carrier technology for data download speed of up to 42 Mbps was present at 37 towns and villages.

Migration of 3G Node B base stations from microwave access technology to optical technology, enabling massive data transfer and part of preparation for LTE installation, was launched in 2012. HSPA+ intended for sending data with speed of up to 5.8 Mbps was available for almost half of the 3G base stations by year's end. The new base GSM and 2G technology (Packet Core) will make it possible to simplify and consolidate the number of different neighbouring systems into a single, common, virtualised network platform, ready for the expected mobile operation boom.

Fixed networks

Slovak Telekom continued to innovate its premium Magio digital television product, adding a new supplementary OTT (Over the top) Magio TV Go service. This service enables all Magio TV and Magio Sat customers to watch dedicated TV channels on mobile devices (Android or iOS) or PCs. through any internet access throughout the territory of Slovakia. Magio TV Lite service, for customers using a lower DSL connection profile, was also launched; this enabled expansion of Magio TV coverage to locations where it had not yet been available for order. An increase in content and programming for Magio TV also continued; 14 new SD channels and 1 HD channel were added, and the Film Box Kino sVoD service was introduced in 2012.

A significant innovation in the summer was an overall change in ADSL network speed, which was gradually applied to internet plans. The first stage included a general speed increase in Turbo plans, and later the change also affected the internet plans portfolio in combination with Magio digital television. The Magio internet speed increase was automatic and free of charge; it was introduced gradually throughout Slovakia. Since summer, customers have thus been able to benefit from new maximum speeds of up to 20 Mbps, depending on their internet plan.

HUMAN RESOURCES

Slovak Telekom had 3,514 internal employees in 2012. In the same period, Zoznam and Zoznam Mobile had 66 internal employees and PosAm 255 internal employees.
The data available as of the last day of 2012 show that the average age of Slovak Telekom's internal employees was 38, the average age of Zoznam and Zoznam Mobile employees was 29, and that of PosAm's employees was 38 years.
Approximately 60% of Slovak Telekom's full-time employees were men and 40% were women. The employee structure of Zoznam and Zoznam Mobile consisted of 47% men and 53% women, and that of PosAm consisted of 80% men and 20% women.
More than 51% of those employed by Slovak Telekom are university graduates, and 49% completed secondary school with a final school leaving exam. In Zoznam and Zoznam Mobile, 68% of employees are university graduates and 32% completed secondary school. PosAm employs more than 74% who graduated from university, and 26% who completed secondary school.

Remuneration and Employee Benefits

In 2012 the Company continued to harmonise its organisational structure, make employment more efficient, and improve its offering of tools and conditions for work.
The information technologies and telecommunications sector has long been among those with the highest remuneration, and so the Company is trying to align and set a fair and competitive wage policy and remuneration schemes which mirror the situation in the Company and on Slovakia's remuneration market.
The employees continued to be paid based on their individual performance, which is also reflected in variable salary for the frontline staff and in the individual part of bonuses for other employees. A new and more motivating remuneration system for frontline positions has been implemented as part of the variable pay scheme.
The Company continued providing employee benefits through the "cafeteria", i.e. by selection from pre-defined products and services where the employees could get discounts or favourable conditions of purchasing (for example, in the areas of health care or recreational possibilities). The portfolio of suppliers offering discounts on employee products and services has been expanded.

The employees could select telephones for work from a diverse array of mobile phones in 2012. For selected managerial and business positions, tablets were added as work tools. Priorities for 2013 include further use of dedicated electronic HR tools, a benefits system update, and final adjustments to the variable pay scheme.

Education and Development

In 2012, education was again targeted mainly at development of employees in direct contact with customers. For this target group the Company carried out several educational activities, co-financed by the European Social Fund.

Internal activities included continuing the Service Hero motivation contest, strongly focusing on fostering customer-friendly attitude, and the Best Performer contest, supporting long-term initiatives to maintain the Company's high performance.

Nearly 130 employees also had the opportunity of participating in "T-Conferences" dealing with topics such as Work-life balance and diversity. The purpose of the format was not only to acquaint employees with these matters, but to motivate them in their continuing work.

With a view to intensify communication between employees and top management, the platform titled "A Day with a Top Manager" continued. As a part of this initiative, the employees could take part in moderated discussions with top managers on the theme of leadership, or meet top managers personally under the "Open Door" event or at an informal evening meeting.

More than 100 employees participated in the Leading Right programme, targeted to teach managers coaching skills for work with their subordinates. All employees had the chance to take part in workshops with internal coaches during Coaching days.

951 internal and external educational activities were organised in 2012, with a total of 7,270 participants. The average education costs totalled EUR 250 per employee. Internal trainers ensuring frontline development trained 8,866 hours.

The employees also intensively studied and improved themselves through e-learning courses (focused on fixed and mobile product areas, work in internal systems, PC and language skills, and legislation). A total of 57 new e-learning training courses were launched and 235 e-tests were given. The e-learning students totalled more than 41,000 people, and 21,000 e-tests were given to verify the knowledge gained.

Employee Care

Slovak Telekom gives ongoing attention to working and social conditions of employees, as well as to safety and health protection at work. Individual activities were undertaken in this field in 2012 in compliance with the health and safety management system in line with OHSAS 18001 international standards. They were based on prevention, thorough check-ups, a cyclical education system, and overall increase of employee OHSAS awareness.

In order to foster employees' attention to their own health, relevant activities were carried out under the Health Programme, in which more than 2,450 employees participated. The Health Programme was mainly focused on employees' sound working conditions, occupational injury prevention, healthy nutrition, and physical activity. Health Days held in June and July, and a Week of Health in September, were pivotal events in the programme, during which employees could get vital functions examined (BMI, blood pressure, or body fat), medical tests carried out, blood measurement done (cholesterol), eye examined, and take part in interesting lectures on diverse themes regarding risk factors of cardiovascular diseases, healthy nutrition, anti-stress safety, etc.

Flexible forms of work (Home Office, Telework, and flexible working hours) were utilised in the endeavour to improve working conditions. All employees were given access to catering (either on the Company's own premises or in public restaurants). A children's camp took place at the Training Centre in Hrabiny during the holidays. The Company made contributions to the supplementary pension insurance of its employees, enabled them to draw on benefits for wellness and relaxation, and provided severance payments beyond the scope of the Labour Code to employees whose employment terminated due to organisational reasons.

Co-Operation with High Schools and Universities

Slovak Telekom enhanced relationships with students through Národné dni kariéry (National Career Days) and Dni príležitostí (Opportunity Days) events.

Long-term programmes offered to students by the Company again in 2012:

- thesis work at ST – guidance and consultation on specialist projects with Company experts;
- technical events, lectures and onsite visits customised to the needs of a particular school or department;
- year-round student internship for selected specialised secondary school students; and
- job opportunities for both students and graduates.

Due to positive responses, the second annual programme for university students, Odborná stáž v Slovak Telekome (Technical Internship at Slovak Telekom), continued. The programme offered six motivated students an opportunity to work on actual professional projects for six to twelve months. Over 250 students of high schools and universities participated in professional excursions and lectures, where they had the opportunity to get informed about topics such as GPON, NGN networks, services and protocols, and IMS. The students were also allowed to visit Slovak Telekom's new data centre, providing a look at the latest technologies.

As part of the Company's long-term cooperation with high schools, a newly built classroom of telecommunications technologies was officially opened at the secondary technical school in Banská Bystrica in September. In the 2012/2013 school year, 8 students were provided an opportunity to gain professional experience in worksites for installing end user services.

The 8th Telekom Day specialist conference, intended for students in the fourth and fifth years of technical universities, was held in 2012. The conference's main theme was green technologies. The students also took a virtual visit to the data centre and tried out Cloud computing capabilities live. "Poster presentations" rounded out the themes.
The conference was attended by 75 students, 16 academics, and almost 30 employees of Slovak Telekom.

Partner for Business

In 2012, the Human Resources Unit was a partner in:

- carrying out transfer of Fleet transport outsourcing to Arval, and of part of Operative Purchasing to Deutsche Telekom's Shared Services;
- changing to a segmented functional organisational structure in the fields of sales, customer service and marketing, and strengthening of ICT sources;
- termination of the Network Operation Division (1st management level);
- establishment of a Section of Networks and Services Installation and Maintenance, thus creating conditions for making service installation and fault clearance processes more effective; and
- launch of the "Relys 2" project – outsourcing mobile technologies.

COMMUNICATION

EXTERNAL COMMUNICATION

Communication with the media in 2012 resulted in several thousand media outputs, with journalists covering various corporate topics concerning both the telecommunications business and macroeconomics. Promotion of various products was very intense (such as launch of new pre-paid schemes and the iPhone 5), with the Telekom brand and associated events receiving record media coverage. Media outputs also included corporate responsibility topics, primarily in assisting with Hearing-Impaired and child safety on the internet.

Product, technology and ICT communication

In 2012, product communication regained its leading position in media coverage. Throughout the year, the Company launched various product and technological innovations with the support of press conferences or meetings with journalists.

Strong new releases in pre-paid cards – EasyFree and EasyTime – were launched in the first quarter of 2012, becoming established throughout the later quarters. The flat rate Happy calling plan had strong PR support for the mass-market segment in the second half of the year, as did Biznis Star for the business segment. Both these plans families were structured differently than previous voice services, so it was important to clarify their new benefits and position in the telecommunication market, which has seen portfolios of every operator change.

In fixed services, the gradual DSL network acceleration for Magio internet and Magio TV was widely covered in the media. Technological articles also regularly covered 3G network extension launch, with its increasing speed up to 21 Mbps or 42 Mbps in dozens of towns and municipalities.

Magio digital TV was strengthened and its programming expanded by a number of channels and new movies for video rental. In the middle of the year, this product also expanded into mobile devices through the Magio TV Go application. The Company offered service testing and received several media reviews.

With a view to its promise to offer the best portfolio of terminal equipment, primarily mobile phones, Slovak Telekom launched dozens of novelties from various producers. The Company tested those products and their services, mainly mobile internet, including the iPhone 5 and flagships of other brands.

Communication regarding ICT is a distinct product and technology area. After the opening of a top of the line data centre in Bratislava in 2011, which helped change the perception of Slovak Telekom as a strong player in the Slovak ICT market, the Company launched its Cloud computing solution.

The term “Cloud computing” was used excessively, and both the media and the public increasingly perceived it mainly as a trendy issue. Thus it was important to choose the right communication strategy and win attention in spite of the topic’s exhaustion. After the introductory phase, briefly giving information about the development of our Cloud solution in cooperation with the PosAm subsidiary, the press conference was divided into business and technological aspects.

In efforts to differentiate our Company from other Cloud providers a decision was made to present a practical example of creating our own virtual server through a self-serve online portal offered by TelekomCloud. The journalists thus had the opportunity to test webportal administration, create a server and set individual parameters, receiving login access in order to test their editing skills in more detail. These activities resulted in mostly positive articles and reactions, with journalists appreciating the fact of having the hands-on experience of something they had had only a vague idea about before as some kind of new service running in a data centre.

Telekom brand communication

In May, the music event Music City in Bratislava drew public and media attention, this time in combination with the well-established Electronic Beats festival. The event was covered by various print and electronic media, with a report broadcast in the main news program of TV Markíza and Slovak Television.

In July, Deutsche Telekom's interactive road movie project Move On brought to Bratislava an international film crew together with the Danish film star Mads Mikkelsen. Gabiela Marcinková, a young Slovak actor, played the main female character by his side. The media met both of them at a press conference, while Telekom arranged for them to shoot one of the stunt scenes in the centre of Bratislava. Thus authentic footage from the capital appeared in some thirty articles and stories.

As expected, the visit of legendary mountaineer and adventurer Reinhold Messner in Bratislava had major media value. The personal interviews and participation of media representatives in a soireé in Reduta resulted in various articles in dailies and weeklies. TV Markíza ran an exclusive interview with the climber in its main news program.

The Olympic Games were the main motive of the 6th annual recreation zone at the bank of the Danube. The Olympics were also made the most of at the opening press conference, featuring the chairman of the Slovak Olympic Committee, František Chmelár, along with the mayor of Bratislava, Milan Ftáčnik. Magio beach was an official fan zone of the Olympics in Slovakia. So the events organised at the beach included lighting the Olympic flame, an exclusive autograph session of the Slovak Olympic team shortly before their departure to London, competitions for tickets to the Olympics and viewing the opening ceremony on Magio digital TV.

The 2nd annual Bažant Kinematograf was a PR blockbuster. Communication support was primarily geared to exclusive first screenings and autograph sessions. Examples include the Czech movie Svätá štvorica that attracted more than 1,500 people. The media showed great interest in interviewing the main actors of the movie, and its director Jan Hřebejk and writer Michal Viewegh, which created a great amount of spontaneous publicity.

The 4th annual Magio Cup, a media tournament of top sportsmen and personalities, organised at the end of the project, has become a tradition. This year attracted a number of journalists and moderators, along with the project's media and business partners. After the beach closed, communication concentrated on publicising the record numbers in the project's six years of existence – with more than 150,000 visiting the beach and using the sport facilities.

Corporate communication

The dominant corporate topics that interested the media in 2012 were free frequencies and extension of valid licences, the change in interconnection fees, roaming regulation, universal service, and wages and benefits.

Corporate responsibility

Slovak Telekom channels its support primarily to those areas where it can provide complex assistance, thus not only financial contributions but its services, know-how and employee volunteering. Frequently, there are touching stories of the people behind the projects supported, so this area requires a specific communication style.

The Company has long given attention to the issues of Hearing-Impaired people. Promoting this issue in the public arena assists this community to advocate for its needs, and makes their life in society easier. Having this goal in mind, the core topic of corporate responsibility communication was the Hearing-Impaired community. The media got interested, for example in the case of Lucia from Prievidza, who has a hearing impairment and opened a coffee shop where people "talk with their hands". She managed to do so thanks in part to experience acquired through the grant program of Endowment Fund Telekom with the Pontis Foundation called Looking for another sense – FOR BUSINESS.

In 2012, external communication of this topic was for the first time combined with a marketing campaign. Slovak Telekom prepared its first ever TV commercial in sign language, on the occasion of the International

Week of the Deaf, to bring the public's attention to the presence of deaf people. For one day, the Company interpreted all its advertisements into sign language.

Safety on the internet is the second area that Slovak Telekom has made a long-term priority. The Company also uses media for promotion of this topic. At the begining of 2012, Slovak Telekom in cooperation with the civic association eSlovensko and the Slovak Ministry of Education, Science and Research launched the publication Deti v sieti (Children in the net). The book, available for free, provides an overview of the basic pitfalls and traps of the virtual world and offers hints on how to explain those issues to children. Internet and children is a very current and interesting topic, as confirmed by the media representation at the event and the following media coverage.

INTERNAL COMMUNICATION

The areas supported through the main internal communication plan in 2012 were:

- Company' strategy and activities regarding telecommunication products and services
- international projects and initiatives in the context of international strategy
- The transformation program Alexander and its specific outputs
- motivational activities to change employees' mindset, e.g. their attitudes and behavior
- balanced internal visibility of executive directors in communication of their management areas
- corporate responsibility activities

Electronic communication

Traditional communication channels for announcing important Company milestones included direct mails and messages from executive directors. All current Company news items (more than 220 in 2012) were available on the internet. A new intranet application – the Company dashboard – was used to announce operational information. Another new intranet application was designed for employee' classified advertising.

More than 40 articles aimed at enhancing awareness about Company products and brands among employees were published on the intranet, each having an average of 900 views. Communication of some products (such as the Christmas campaign and new Happy programs) was also supported by competitions, posters on the premises or video speeches.

New communication tool

MicrosoftLync 2010 is a new communication tool offering such functionalities as online communication through chat with other colleagues, the possibility to organize videoconferencies, document sharing and providing other colleagues full access to one's desktop. 900 employees on average used this platform, sending each other 11,000 messages and carrying out more than 500 audio and video conversations.

Employee newsletter

The employees' newsletter has long been a favourite communication tool at SlovakTelekom. More than 90% of the employees in the survey carried out throughout the year appreciated changes in its content and design. Its main role has been to support networking among employees, and let their families know about Company life. An electronic version of the newsletter was accessible to all employees on the intranet, while 1,100 employees preffered to get a hard copy at their home address.

Internal campaigns

The core campaign of 2012 was communication supporting the internal transformation program Alexander, and shaping employees' personal attitude to the changes. A sub-page contained an interactive video shot in the datacenter, a quiz on the program with interesting prizes, and news on program content. Part of the campaign motivating employees to change their own attitude, called "We are changing to be better", had outstanding feedback. They actively participated in both stages of the campaign. In the first stage, titled "What we would be like if we didn't change?", employees sent pictures from their past, and their colleagues decided on a winner. In the second stage, those employees who had changed their life attitudes due to a personal challenge were introduced on posters, and their personal stories were published on the intranet. At the same time, employees could publish challenges they themselves would like to tackle, with 15 of them receiving financial support to carry that challenge out. Stories, pictures and videos reporting on how they managed to achieve their goal were published on the intranet.
It was the most popular campaign of the year, which was clear from employee awareness: 90% of more than 500 participating employees knew about the program and understood it.

Working together with the security department, Internal communication prepared an educational safety campaign targeting information protection. The campaign was ranked as the 2nd most successful campaign in Deutsche Telekom Group from among 45 participating countries (the main criterion was the knowledge of the campaign and communicated topics among employees). There were more than 5,000 visits to the campaign's pages, with 650 employees participating in a competition promoting it.

In support of corporate responsibility activities, SlovakTelekom prepared two competitions in addition to a thematic poster campaign and intranet and direct communication. Employees could order their own pedometer or use a smartphone application to walk their way to creation of a new forest in the Tatras. In 17 days, they made 15 million steps, thanks to which the Company planted trees in the Tatras, expanding the Telekom forest. A campaign follow-up competition – of the biggest "Mobile-ecologist" – gave employees the opportunity to return their old mobile phones in shops or in special boxes in selected buildings for ecological disposal. Employees handed in almost 1,000 old mobile phones, thus contributing to long term environmental sustainability.

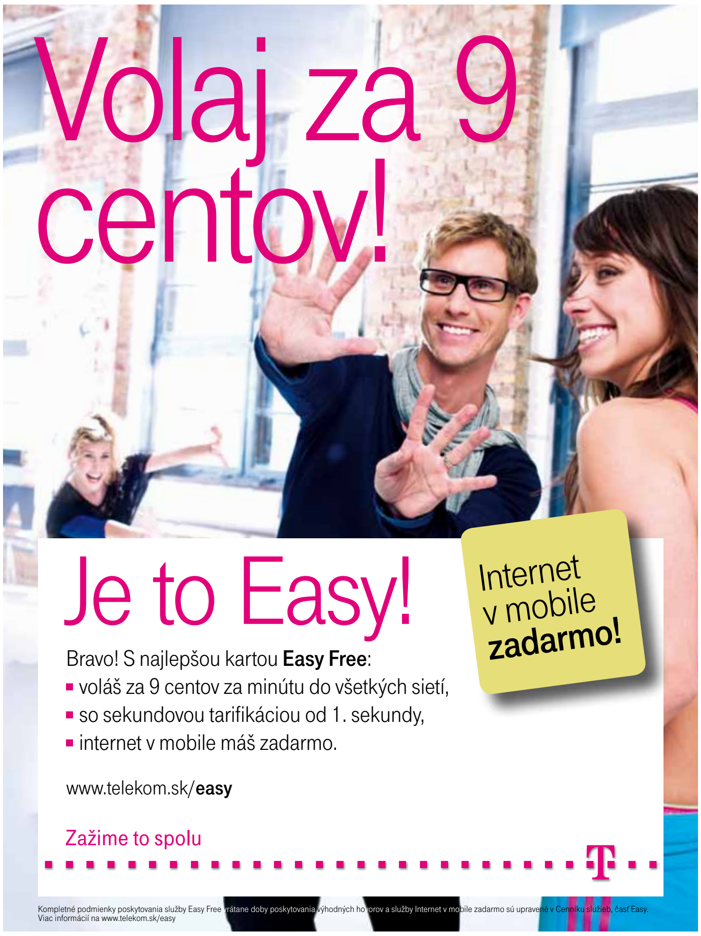
Employee events

It has become a tradition for Company top management to meet managers at the Managers' forum and with employees at the Employees' forum twice a year. Employees who could not come to participate in the Employees' forum could watch it on-line on the intranet (and later on video). More than 1,700 took advantage of this opportunity. The goal of the meetings was to present all economic indicators, Company goals and strategy and to motivate employees for the upcoming period.

The Company continued its scheme of informal "A day with..." meetings. On a given date, a selected management member meets and talks with employees either one-to-one, in group discussion or during an offline evening meeting. Other informal meetings on current topics and Company transformation included Hot Seat discussions with managers, opening of the Magio beach employees for a first drink with employees, celebrating the 10th anniversary of the internal frontline system. At the end of the year the Company organized an employee Christmas party as a token of appreciation for their hard work on achieving corporate goals throughout the year.

MARKETING COMMUNICATION

In 2012, Slovak Telekom moved towards long-term communication platforms and strengthened its focus on social networks. This move has helped the Company fulfill the international brand's promise – Life is for sharing.



Easy

In 2012, the Company made a very successful revival of the existing pre-paid services Easy. The major card benefits became calls for 9 cents to all networks and free internet in the cell phone, targeting primarily young people. The campaign featured a dance maestro, who 'danced us through the service's benefits".

The power of the concept was built on a witty presentation of the restructured Easy card benefits. There were three follow-ups of the concept, which became part of the sponsoring activity for the singing competition Hlas Česko Slovenska. The Easy offer culminated at Christmas time, when customers could choose a new mobile phone that had been pre-paid by Slovak Telekom as an extra credit.

The campaign won second prize in Slovakia's most prestigious advertising efficiency competition, EFFIE 2012.

Telekom Benefit

Slovak Telekom prepared a new loyalty customer program based on acquisition of discounts. In less than a year it attracted more than one million unique customers. The portal offered a wide array of interesting offers in three categories – Best discounts for everybody, Best discounts in your city and Exclusive discounts. The most favourite discounts included a 50% discount in cinemas, two-for-one ski passes and an advantageous fuel discount.

Paviel Rochnyak was the face of the launching web campaign. In spite of controversial reactions, the public got interested and awareness of the loyalty program increased. The project won three awards in the creativity competition Zlatý Klinec 2012.

Magio TV and internet

Magio products can be characterised as family-oriented and accessible to all. Therefore, a long-term family communication platform was created for this product line, humorously depicting products and their functionality in family interactions. The commercial "Zastav, pretoč, pusti znova" (Stop, rewind and play again), where the female actors were overwhelmed by the Magio TV functions as presented by the male Slovak TV stars, was the most popular in the series.

Flat-rate Happy calling plan

The Company introduced a new family of Happy flat rate calling services in 2012, with the core benefit being calls in the biggest mobile and fixed network in Slovakia.

The icon of the campaign became actress and singer Eva Máziková, known for her love of "endless talking". The concept behind it was very simple – Eva sat in her pink taxi, being taken through the whole of Slovakia, meeting a number of people, while she never let them talk.

Biznis Star
For the business segment, Slovak Telekom offered new post-paid programs with a possible combination of add-on packages. The idea of endless calls was communicated through the doodles people usually make during their endless calls, illustrating the art of using up the minutes in the new post-paid scheme. The campaign also included a web page where the Company donated 1 euro for each drawing to support deaf businesspeople. Company clients offered drawings for the print campaign.

Move On
The impressive road movie of the Hollywood director Asger Leth, starring with Mads Mikkelsen, was an exceptional international movie project of the Deutsche Telekom Group, with 10 member countries participating: Germany, Austria, the Netherlands, Slovakia, Croatia, Montenegro, Macedonia, the Czech Republic, Hungary and Bulgaria. The project gave fans from participating countries the unique opportunity to act in a movie in various roles, thus having an impact on its plot. More than 1,200 Slovaks joined in, and the site had more than 110,000 visitors.

Christmas
The end of the year proved that Slovak Telekom can always offer its customers the best services with something extra. The Company decided to use the connection among creativity existing in its communication of Happy and Magio services. A spot built on the song "Happy Day", introduced by the face of the previous campaign, Eva Máziková, launched communication. Then followed family commercials with punch-lines promoting products for one euro. The Christmas campaign achieved excellent communication parameters.

Slovak Telekom managed to attract almost 40,000 new fans to its Facebook fan page Telekom.SK in 2012. The page gives information on new items, discounts and competitions. At the end of the year, the number of fans exceeded 70,000. The YouTube channel Life is for sharing, with more than six million views, is the clear leader among Slovak operators.

ZOZNAM

In 2012, external communication of Zoznam focused on key portfolio products. In its interviews with the media, top management concentrated on direct client acquisition through prioritising listing projects (e.g. Kariéra.sk, Katalóg, Dopytovač, and Predpredaj.sk). Additionally, the media also covered clients' growing interest in advertising space in mobile phones. Thanks to its regular activities and innovations, Zoznam has a stable market position in this segment (interviews for the marketing monthly Stratégie and the media portal medialne.sk)

Marketing communication and media partnerships
A personalised online TV program, the product Telkáč.sk on the Zoznam.sk portal, was very attractive to users. It was promoted during the spring, primarily through the quiz Telkáč roka. Thanks to simple mechanics and Facebook community usage, 117,349 respondees joined in the quiz on the favourite celebrity, program and show in Slovak television.

Summer is traditionaly focused on the project "Dievča leta" (Summer girl), statistically the most popular beauty contest. In 2012, 1,199 contestants joined the competition. The beauties attracted almost 400,000 users visiting the site during the competition and voting. The project was supported by the established road show in selected Slovak towns and a campaign in Slovakia's media.

The brand name Zoznam.sk has been connected with the biggest Slovak festival Bažant pohoda every year. Apart from standard media cooperation supporting brand awareness, this year's cooperation also targeted the presentation of the Zoznam portfolio right at the festival. The multimedia stand opposite the main stage allowed visitors to use one of the Zoznam services on PCs with internet connection.

The massive TV campaign of the job portal Kariéra.sk titled, "Find a job you will enjoy", was targeted at promoting awareness of the brand not only among the service users on the internet but also among potential employers. The campaign also contributed to the results the next month, which were the project's best, with a record high number of web visitors. From the long term perspective, awareness about the Kariéra.sk brand was also supported by a stable radio campaign in Jemné melódie radio, broadcasting interesting job offers on a weekly basis, and placement of simple product boxes with offers on relevant Slovak internet web pages.

Media cooperation saw the biggest changes in comparison with the past. Thanks to the Predpredaj.sk service, Zoznam started to monetise long term partnerships with the biggest Slovak cultural events. This ticket sales platform was the common denominator for all the supported music events. The users interested in a given event could learn everything about it, and also buy their tickets within the Zoznam portfolio. This increased the amount of time spent on Zoznam.sk, which had positive financial impact on Company revenues. Users could use Predpredaj.sk service to buy tickets to numerous events, such as Depeche Mode, Sting, Eros Ramazzotti, Mark Knopfler, Yamato, China national circus, Roberto Ciotti, Oľga Pereťaťko and others.

POSAM

PosAm communication activities take into account specific features of the Company, offering services and solutions for corporate clients. The Company concentrates primarily on specialised professional events, where it can present its competencies in a highly focused way through personal meetings and presentations. The most important events organised by the Company in 2012 included a seminar on Desktop virtualisation with Cisco and Citrix Technologies and TechDays East a West 2012 on IT novelties in the business segment.

Company representatives also actively participated in various conferences (the eFocus conference: Mobility for business; Infotrends 2012; itSMF 2012; and the eFocus conference on trends in optimalisation and cost reduction in IT).

CORPORATE RESPONSIBILITY

The Slovak Telekom Group applies corporate responsibility principles in its business, behaving responsibly not only with regard to its business decisions and strategies but also in its treatment of the environment and in the social impact of the company. Corporate responsibility principles are an integral part of the business philosophy and strategy of Slovak Telekom Group companies, based on the corporate responsibility principles of the parent company Deutsche Telekom, and approved by executive management every year. The strategy reflects the entire Group's employee Code of Conduct and delineates behaviour towards the community, employees, customers, partners, and the environment. The Annual report provides a brief overview of the activities carried out mainly in the community area in 2012. The other activities are described in more detail in the Corporate Responsibility Report to be published in the first half of 2013.

Slovak Telekom

The main ways that Slovak Telekom offers support include long-term assistance to the Hearing-Impaired community, projects to support child safety on the Internet and in mobile communication, developing donations through telecommunications collections, cooperation with high school and university students, long-term partnerships with the Horská záchranná služba (Mountain rescue service) and Divadlo Aréna (Aréna Theatre) and development of corporate volunteering in programmes "Naše mesto" (Our City), "Hlavy pomáhajú" (Helping Heads), blood donation, and support for the Tatras. The Endowment Fund Telekom with the Pontis Foundation provides support for community projects suggested by employees, work therapy for young men coming from orphanages in the "Dom na polceste" (Halfway House) at Veľký Slavkov, sign language courses, the grant programme "Hľadáme ďalší zmysel – PRE PODNIKANIE" (Looking for Another Sense – FOR BUSINESS), financial training for hearing-impaired students who have graduated from high school, and music therapy for hearing-impaired children.

In 2012, Slovak Telekom along with the not-for-profit organisation eSlovensko and other partners published the free book „Deti v sieti" (Children in the net) about the basic dangers of the virtual world. The publication addresses parents, as well as teachers and other people working with children and young people, who are dealing with the issue and wish to be better informed. The book is also publicly available for free download at the internet bookshop Martinus.sk. In summer, Slovak Telekom through its endowment fund organized two seminars for the Comenius Children's University. Young students took a break from school to come down to the sandy beach and learn about the dangers hidden on the Internet and how to say hello in sign language. The Magio beach was also the venue for a free sign language course, taught by an experienced teacher and held every second Sunday. In this way Telekom wanted to help the general public experience the language of the hearing-impaired. This year with help from the endowment fund some others with hearing-impairments started their own business, including Paľo Šarina from Veľký Krtíš who opened a kebab restaurant, and Lucia Škultétyová from Prievidza who launched the café "U šálky" (Cup Café). In September during the International Week of the Deaf the Company launched its first spot in sign language. The main character was 4-year old hearing-impaired Dominik and his parents. The commercial aimed at highlighting the fact that the Hearing-Impaired live among us. On the Day of the Deaf, Sunday 30 September, all Telekom commercials were interpreted in sign language.

In the area of the environmental protection the Company focused on reducing CO2 emissions and energy consumption, as well as on processing waste, electrical devices and packaging. Concerning customer care, Telekom expanded its portfolio of services and products to groups with specific needs, actively introduced more customers to electronic invoicing, and developed new methods of measuring and then increasing customer satisfaction. As regards relations with its employees, the Company continued strengthening its corporate culture through coaching and the leadership team's support, organized another annual Health Programme, and continued its special care for those employees influenced by organisational changes. Moreover, the Company minimized the environmental impact of paper-based ordering by expanding its use of electronic orders.

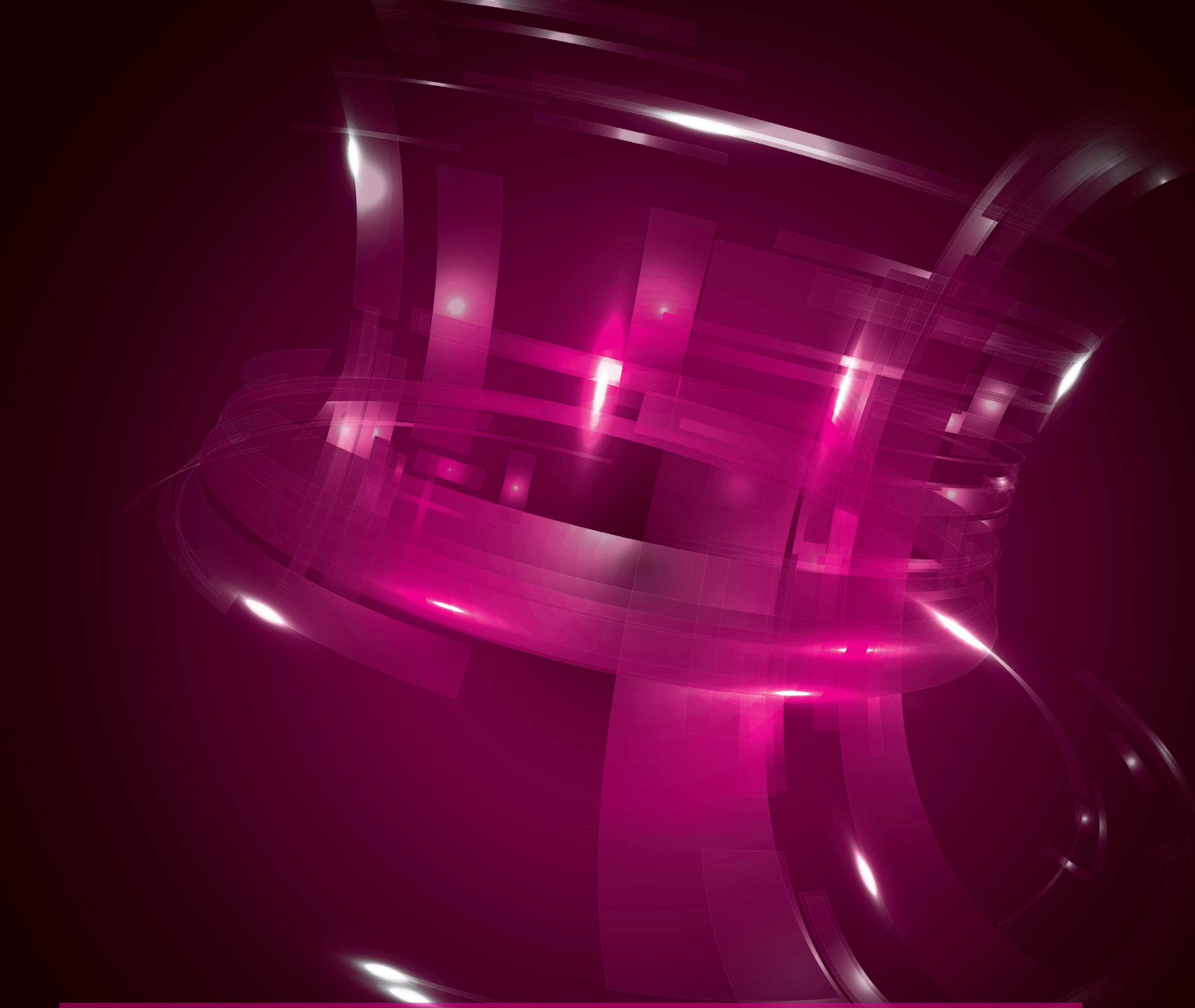
Zoznam.sk

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 meaningful philanthropic activities.

In 2012 Zoznam gave media support to the following not-for-profit organisations: MAGNA Deti v núdzi (Children in Need), the civic association Želaj si (Make A Wish), Úsmev ako dar (Smile as a Gift), the Red Cross, Človek v ohrození (People in Peril), 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) and others.

PosAm

The business activity of PosAm is based on finding continuous balance between the Company's interests and needs and those of its employees, customers and environment.
In the area of education support, PosAm served as the main sponsor of the project "Nemaj na saláme" (Don't be indifferent) to help high school students choose further studies in higher education. The Company contributed to the "eSKILLS 2012" project, focused on developing ICT skills, by preparing tests and valuable prizes for those willing to put their knowledge to the test in this project.
The social responsibility of the Company and its employees is further reflected in philanthropic and sponsoring activities.



04 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 2012

Contents

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 (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2012 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 2012, its financial performance, and 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
T: +421 (0) 2 59350 111, F: +421 (0) 2 59350 222, www.pwc.com/sk

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

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.

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

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

Ing. Štefan Čupil
UDVA licence No.: 1088

Bratislava, 14 March 2013

Our report has been prepared in Slovak and in English 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.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER

thousands of EUR	Notes	2012	2011
Revenue	4	**837,372**	**891,369**
Staff costs	5	(130,866)	(145,963)
Material and equipment		(103,598)	(84,308)
Depreciation, amortization and impairment losses	12,13	(236,352)	(237,909)
Interconnection and other fees to operators		(87,007)	(108,214)
Other operating income	6	10,957	13,813
Other operating costs	7	(181,092)	(191,550)
Operating profit		**109,414**	**137,238**
Financial income	8	4,919	6,826
Financial expense	9	(1,802)	(2,523)
Profit before tax		**112,531**	**141,541**
Taxation	10	(50,498)	(29,643)
Profit for the year		**62,033**	**111,898**

The consolidated financial statements on pages 44 to 80 were authorized for issue on behalf of the Board of Directors of the Group on 14 March 2013 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:

....
Mgr. Marek Šilhár
Senior Manager of Accounting and Taxes

Preparer of the financial statements:

....
Ing. Miroslava Solárová
Manager of Financial Transactions,
Reporting and Taxes

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

thousands of EUR	Notes	2012	2011
Profit for the year		**62,033**	**111,898**
Other comprehensive income			
Actuarial (losses) / gains on defined benefit plans	24	(2,131)	3,299
Deferred tax income / (expense)	10	373	(627)
Other comprehensive income for the year, net of tax		**(1,758)**	**2,672**
Total comprehensive income for the year, net of tax		**60,275**	**114,570**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER

thousands of EUR	Notes	2012	2011
ASSETS			
Non-current assets			
Property and equipment	12	918,503	1,004,157
Intangible assets	13	358,118	404,437
Deferred tax	10	190	66
Trade and other receivables	15	9,135	4,509
Prepaid expenses and other assets	17	14,214	18,219
		1,300,160	**1,431,388**
Current assets			
Inventories	18	14,038	11,252
Held-to-maturity investments	19	74,326	82,724
Term deposits over 3 months	20	105,961	-
Loans	21	-	190,000
Trade and other receivables	15	112,892	111,691
Prepaid expenses and other assets	17	7,393	7,097
Current income tax receivables		4,002	254
Cash and cash equivalents	22	371,488	178,633
		690,100	**581,651**
TOTAL ASSETS		**1,990,260**	**2,013,039**
EQUITY AND LIABILITIES			
Shareholders' equity			
Issued capital	23	864,113	864,113
Share premium	23	386,139	386,139
Statutory reserve fund		170,634	159,240
Other		634	2,380
Retained earnings and profit for the year		187,975	229,336
		1,609,495	**1,641,208**
Non-current liabilities			
Deferred tax	10	151,711	139,296
Provisions	24	12,856	9,991
Trade and other payables and deferred income	25	5,085	17,956
		169,652	**167,243**
Current liabilities			
Provisions	24	5,243	5,611
Trade and other payables and deferred income	25	205,734	182,985
Current income tax liabilities		136	15,992
		211,113	**204,588**
Total liabilities		**380,765**	**371,831**
TOTAL EQUITY AND LIABILITIES		**1,990,260**	**2,013,039**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER

thousands of EUR	Notes	Issued capital	Share premium	Statutory reserve fund	Other	Retained earnings	Total equity
Year ended 31 December 2011							
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**
Year ended 31 December 2012							
At 1 January 2012		864,113	386,139	159,240	2,380	229,336	1,641,208
Profit for the year		-	-	-	-	62,033	62,033
Other comprehensive income		-	-	-	(1,758)	-	(1,758)
Total comprehensive income		**-**	**-**	**-**	**(1,758)**	**62,033**	**60,275**
Allocation to funds	23	-	-	11,394	-	(11,394)	-
Other changes in equity		-	-	-	12	-	12
Dividends	23	-	-	-	-	(92,000)	(92,000)
At 31 December 2012		**864,113**	**386,139**	**170,634**	**634**	**187,975**	**1,609,495**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER

thousands of EUR	Notes	2012	2011
Profit for the year		**62,033**	**111,898**
Adjustments for:			
Depreciation, amortization and impairment losses	12,13	236,352	237,909
Interest income, net		(4,399)	(6,269)
Income tax expense	10	50,498	29,643
Gain on disposal of property and equipment	6	(1,113)	(1,022)
Other non-cash items		(111)	(3,176)
Movements in provisions		(304)	(3,468)
Changes in working capital			
Change in trade and other receivables		(3,353)	8,041
Change in inventories		(2,512)	4,392
Change in trade and other payables		13,495	(1,117)
Cash flows from operations		**350,586**	**376,831**
Income taxes paid		(57,437)	(20,681)
Net cash flows from operating activities		**293,149**	**356,150**
Investing activities			
Purchase of property and equipment and intangible assets		(104,462)	(178,081)
Proceeds from disposal of property and equipment and intangible assets		1,857	1,884
Acquisition of interest in subsidiary	25	(2,438)	-
Acquisition of held-to-maturity investments		(70,582)	(39,273)
Proceeds from disposal of held-to-maturity investments		78,094	39,559
Disbursement of loans		(140,000)	(170,000)
Repayment of loans		330,000	65,059
Acquisition of short-term bank deposits		(136,029)	-
Termination of short-term bank deposits		30,000	60,000
Interest received		5,975	4,645
Net cash used in investing activities		**(7,585)**	**(216,207)**
Financing activities			
Dividends paid	23	(92,000)	(130,000)
Repayment of financial liabilities		(109)	(134)
Other charges paid		(600)	(1,004)
Net cash used in financing activities		**(92,709)**	**(131,138)**
Net increase in cash and cash equivalents		192,855	8,805
Cash and cash equivalents at 1 January	22	178,633	169,828
Cash and cash equivalents at 31 December	22	**371,488**	**178,633**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

INDEX TO THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

Slovak Telekom is a joint-stock company incorporated on 1 April 1999 in the Slovak Republic. The Company's registered office is located at 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.

Effective 1 July 2010 Slovak Telekom, a.s. and T-Mobile Slovensko, a.s. ("T-Mobile") have been legally merged. T-Mobile was wound up without liquidation by means of an up-stream merger. Slovak Telekom became a legal successor of T-Mobile and consequently has taken over their assets and liabilities. Since October 2011 the integrated Company operates on the market under one common brand named Telekom replacing brand names T-Com and T-Mobile.

Slovak Telekom is the largest universal multimedia operator offering residential and corporate clientele benefits of comprehensive solutions provided from a single source. Slovak Telekom offers a full-array of data and voice services, and owns and operates the fixed and mobile telecommunications network covering almost the entire territory of the Slovak Republic. In the field of the fixed network, the Company systematically invests in the most advanced optical infrastructure, operates the Next Generation Network (NGN) and is the largest broadband provider in the country. As the first multimedia operator, it offers the IPTV (Magio TV) and satellite TV (Magio SAT) via fixed networks and satellite technology DVB-S2. In the field of mobile communication, it provides as the only operator internet connectivity via four technologies for high-speed data transmission - GPRS/EDGE, Wireless LAN (Wi-Fi), UMTS FDD/HSDPA/HSUPA and FLASH-OFDM. The Company established and operates public mobile telecommunications networks over the following frequencies: 900 MHz and 1800 MHz under the standard GSM (Global System for Mobile Communications), 2100 MHz under the standard UMTS (Universal Mobile Telecommunications System), 450 MHz under the Flash-OFDM standard to provide wireless broadband internet access and Managed Data Network Services and 26 GHz/28 GHz for Fixed Wireless Access (FWA).

The frequency authorization granted by the Telecommunications Office of the Slovak Republic for the provision of mobile services on 900 MHz, 1800 MHz and 450 MHz frequency bands is valid up to 31 August 2021. The UMTS license for 2100 MHz frequency band (including the 28/29 GHz frequency band for backhaul connections) is valid up to 31 August 2026. The 26 GHz/28 GHz frequency licenses granted by the Telecommunications Office of the Slovak Republic are valid until 21 December 2017.

At 31 December 2012, the Group had the following subsidiaries:

Názov	Registered office	Activity	Profit 2012	Profit 2011	Net assets 2012	Net assets 2011
PosAm, spol. s r. o.	Odborárska 21, 831 02 Bratislava	IT services, applications and business solutions	2,444	2,366	8,501	7,240
Zoznam, s.r.o.	Viedenská cesta 3-7, 851 01 Bratislava	Internet portal	343	123	2,114	1,771
Zoznam Mobile, s.r.o.	Viedenská cesta 3-7, 851 01 Bratislava	Mobile content provider	15	60	383	368
Telekom Sec, s.r.o.	Kukučínova 52, 831 03 Bratislava	Security services	(3)	(3)	-	3

Financial data for subsidiaries are based on their separate financial statements. At the date of authorization of these consolidated financial statements for issue, the audited financial statements of PosAm and Zoznam for the year ended 31 December 2012 were not available. The table is prepared based on their preliminary non-audited 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 29 January 2010 the Group acquired 51% of the share capital and voting rights in PosAm and obtained control of PosAm. The business combination was accounted for as if the acquirer had obtained a 100% interest in the acquiree due to existence of put & call options which, if triggered, may result in the transfer of the residual 49% equity interest in PosAm to Slovak Telekom. The Group concluded that terms of the transaction represent a contractual obligation to purchase the Group's equity instrument. The fair value of such liability (i.e. present value of the redemption amount) has been reclassified from equity (non-controlling interest) to financial liabilities (Note 25). Accordingly, the consideration transferred includes the present value of the liability related to the acquisition of 49% of PosAm under the put & call options.

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

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

Zoznam operates one of the most frequently visited Slovak internet portals, Zoznam.sk, specializes in internet website search and offers on-line products like a news server Topky.sk, specialised magazines, freemail service, job portal or catalogue of companies.

Zoznam Mobile provides mobile internet content services, mobile technologies and tailor-made solutions.

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.

Members of the Statutory Boards at 31 December 2012

Board of Directors

Chair:	Ing. Miroslav Majoroš
Vice-chair:	Ing. Michal Vaverka
Member:	Dr. Robert Hauber
Member:	Kerstin Günther
Member:	Dr. Ralph Rentschler
Member:	Ing. Miloš Šujanský, PhD., M.B.A.
Member:	Ing. Martin Mác

Supervisory Board

Chair:	Dr. Hans-Peter Schultz
Vice-chair:	Ing. Michal Lukačovič
Member:	Ing. Július Maličký
Member:	Milan Brlej
Member:	Ing. Peter Weber
Member:	Ing. Ján Hláčik
Member:	Mgr. Martin Habán
Member:	Cornelia Elisabeth Sonntag
Member:	Tanja Wehrhahn

In 2012 a number of changes were entered in the Commercial Register: Mr. Albert Pott and Mr. Róbert Sándor left the Board of Directors in September 2012 and were replaced by Ms. Kerstin Günther and Mr. Michal Vaverka. Mr. Michal Vaverka replaced Mr. Martin Mác in the position of Vice-chair of the Board of directors. In addition, the Vice-chair Ms. Katarína Lešková left the Supervisory Board in September 2012 and was replaced by Mr. Michal Lukačovič. The Supervisory Board member positions of Mr. Ján Vozár and Mr. Miroslav Galamboš were replaced by Mr. Peter Weber and Mr. Martin Habán.

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 under the historical cost convention, except where disclosed otherwise.

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

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

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

Statement of compliance

These financial statements are the ordinary consolidated financial statements of the Group and have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations as adopted by the European Union ("IFRS"). The consolidated financial statements are available at the Group's registered office or at the Register Court administering the Commercial Register of District Court Bratislava I, Slovak Republic and in the public administration information system (the Register) administered by the Ministry of Finance of the Slovak Republic.

Basis of consolidation

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

Subsidiaries are all entities in which the Company 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 Company controls another entity.

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

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the assets transferred, shares issued or liabilities undertaken at the date of acquisition. The excess of the cost of acquisition over the fair value of the net assets and contingent liabilities of the subsidiary acquired is recorded as goodwill. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. If the amount of contingent consideration (a liability) changes as a result of a post-acquisition event (such as meeting an earnings target), the change is recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income.

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

Costs directly attributable to the acquisition are expensed.

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

2.2 Property and equipment

Property and equipment, except for land, is initially measured at historical cost, excluding the costs of day-to-day servicing. The cost of property and equipment acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, property and equipment is carried at cost less any accumulated depreciation and any accumulated impairment in value. 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.

Historical cost includes all costs directly attributable to bringing the asset into working condition for its use as intended by the management. In case of network, costs comprise all expenditures, including internal costs directly attributable to network construction, and include contractors' fees, materials and direct labour. Costs of subsequent enhancement are included in the asset's carrying amount or recognized as a separate asset, when it is probable that future economic benefits associated with the item will flow to the Group and the costs 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 (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included within other operating income or expense in the income statement in the period in which the asset is 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. Depreciation charge is identified separately for each significant part of an item of property and equipment.

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

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

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

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

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

Property and equipment are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and the sale is considered as highly probable. When property and equipment meet these criteria, 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 historical cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated 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:

Software	2 to 16 years
Licenses	5 to 16 years
Customer contracts	8 to13 years

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

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

Costs associated with the acquisition of long term frequency licenses are capitalized. Useful lives of concessions and licenses are 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 represents an excess of consideration transferred over Group's interest in net fair value of the net identifiable assets acquired, liabilities and contingent liabilities of the acquiree and the fair value of non-controlling interest in the acquiree. Following initial recognition, goodwill is measured at carrying value less any accumulated impairment losses. Goodwill is not amortized but it is reviewed for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired (Note 14). Carrying value of goodwill is compared to its recoverable amount, which is the higher of value in use and fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

2.4 Impairment of non-financial assets

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

For the purpose of assessing impairment, assets are grouped into cash-generating units, representing the smallest groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Group determines the recoverable amount of a cash-generating unit on the basis of 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. 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. Discount rates reflect risks specific to the cash-generating unit. Cash flows reflect management assumptions and are supported by external sources of information.

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

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

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

Impairment is determined by assessing the recoverable amount of cash-generating unit to which the goodwill relates. For more details on impairment of goodwill in 2012, refer to Note 14.

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 an 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 sale of equipment is only recorded 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 and shortterm deposits with original maturity of three months or less from the date of acquisition.

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

2.7 Financial assets

The Group classifies its financial assets as: loans and trade and finance lease receivables, financial assets at fair value through profit or loss, term deposits over 3 months 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. Regular purchases and sales of financial assets are recognized on the trade date – the date on which the Group commits to purchase or sell the asset. When financial assets are recognized, they are initially measured at fair value, plus, in case of investments not held at fair value through profit or loss, directly attributable transaction costs. Financial assets carried at fair value through profit or loss are initially 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.

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

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 financial year-end. These are classified as non-current assets. Trade and other receivables are initially recognized at fair value and subsequently measured at amortized cost, using the effective interest method, less allowance for impairment. For the purpose of impairment testing the estimated cash flows are based on the past experience of the collectibility of overdue receivables. Allowance for impairment reflects the estimated credit risk.

When a 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 recognized within other operating income in the income statement.

Amounts payable to and receivable from the same international telecommunication operators are shown net in the statement of financial position when a 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 in this category. A financial asset held for trading is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current. Gains or losses arising from changes in the fair value of "financial assets through profit or loss" category are presented in the income statement within financial income or financial expense in the period in which they arise.

Derivatives are also classified as held for trading. Gains or losses on assets held for trading are recognized in the income statement within financial income or financial expense.

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 income or financial expense.

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

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized 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 include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are 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 income or financial expense.

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

If the effect of the time-value of money is material, provisions are discounted using a risk-adjusted, pre-tax discount rate. Where discounting is used, the increase in the provision due to the passage of time is 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 obligation is recognized in the period in which it has been incurred and it is considered to be an element of cost of the related non-current asset in accordance with IAS 16. The obligation is measured at present value, and it is depreciated over the estimated useful life of the related non-current asset. Upon settlement of the liability, the Group either settles the obligation for its recorded amount or incurs a gain or loss upon settlement.

2.12 Employee benefit obligations

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

A defined contribution plan is a pension plan under which the Group pays fixed contributions into separate publicly or privately administered entities on a mandatory, contractual or voluntary basis. Once the contributions have been paid, the Group has no further payment obligations. The contribution is based on gross salary payments. The cost of these payments is charged to the income statement in the same period as the related salary cost.

The Group also provides defined retirement and jubilee benefit plans granting certain amounts of pension or jubilee payments that an employee will receive on retirement, usually dependant on one or more factors such as an age, years of service and compensation. These benefits are unfunded. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period, together with adjustments for unrecognized past-service cost. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The last calculation was prepared on 31 December 2012. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using discount rate of weighted-average yields for high-quality (Bloomberg Aa*) - non-cancellable, non-putable corporate bonds. The currency and term of the bonds are consistent with the currency and estimated term of the benefit obligations. Past service cost is 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 cost is 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. Current service cost, past service cost and curtailment gain are included within wages and salaries under staff costs, interest cost is included within employee benefits-interest cost under financial expense in the income statement.

Termination benefits

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

2.13 Revenue recognition

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

The Group recognizes revenue as follows:

The Group provides customers with narrow and broadband access to its fixed, mobile and TV distribution networks. Service revenue is 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 revenue is recognized in the period they relate to.

Revenue from prepaid cards is recognized when credit is used by a customer or when credit expires 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. Revenue from interconnect is recognized gross.

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

Revenue from multiple revenue arrangements is considered as comprising identifiable and separable components, to which general revenue recognition criteria can be applied separately. Numerous service offers are made up of two components, a product and a service. When separable components have been identified, an amount received or receivable from a customer is allocated to individual deliverables based on each component's fair value. Amount allocable to a delivered item(s) is limited to the amount that is not contingent upon the delivery of additional items or meeting other specified performance conditions (the 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 operating leases of equipment is recognized on a straight-line basis over lease period.

Activation fees and subscriber acquisition costs

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

IT revenue

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

Revenue from maintenance services (generally a 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 but are billed on a basis of time and material used, is recognized when the services are provided.

Revenue from sale of hardware and software or from sales-type leases is recognized when risks of ownership are substantially transferred to a customer, provided there are no unfulfilled obligations that affect customer's final acceptance of the arrangement. 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. When a loan or receivable is impaired, the Group reduces its carrying amount to a recoverable amount. Recoverable amount is determined as estimate of future cash flows discounted at the original effective interest rate of the instrument. The discount continues being unwinded as an interest income. Dividend income is recognized when the right to receive payment is established.

2.14 Leases

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

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

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

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

Operating lease – the Group as lessor

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

Finance lease – the Group as lessor

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

Operating lease – the Group as lessee

Costs of operating leases are charged to the income statement on a straightline basis over the lease term.

2.15 Operating profit

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

2.16 Foreign currency translation

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

2.17 Taxes

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

Current income tax

Current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted as of the statement of financial position date. Current income tax includes additional levy imposed by the Slovak government on regulated industries effective from 1 September 2012. The levy of 4.356% per annum (or 1.452% for period September – December 2012) is applied on the basis calculated as the profit before tax determined in accordance with the Slovak Accounting Standards reduced by a fixed deduction of EUR 3,000 thousand.

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

Deferred tax

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

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

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

Change of the income tax rate from 19% to 23%, effective from 1 January 2013, resulted in the increase of the deferred tax liability of EUR 26,351 thousand in these financial statements with the effect on the tax expense of EUR 26,319 thousand and the effect on the other comprehensive income of EUR 32 thousand.

2.18 Significant accounting judgements, estimates and assumptions

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

In the process of applying the Group‘s accounting policies, management has made the following judgements, estimates and assumptions which have the most significant effect on the amounts 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 depreciation or 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 Group reviewed useful lives of non-current assets during 2012 and changed accounting estimates where appropriate. The table summarizes net increase or (decrease) in depreciation or amortization charge for the following categories of non-current assets:

thousands of EUR	2012	2013	2014	2015	After 2015
Software	501	165	(500)	(215)	(3)
Buildings	244	(33)	(33)	(32)	(54)
Switching equipment	9,900	1,462	(4,374)	(3,260)	(3,858)
Radio equipment	2,866	1,478	(668)	(1,885)	(1,473)
Other telecommunications equipment	169	(227)	(98)	(37)	(9)
Other technical equipment and machinery	461	(55)	(97)	(67)	(86)
Other (motor vehicles, office equipment, personal computers)	761	(329)	(68)	(134)	(109)

Customer relationships
The Group maintains record of customer relationships obtained during the acquisition of control of T-Mobile (Note 13) 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.

Customer retention period
The Group accrues activation; non-refundable up-front fees in cases when the delivery of products or rendering of services does not present a separate earnings process and the activation fees are not offset by a delivered product or rendered services. An accrual is made over the expected period of the customer relationship. The estimated customer relationship period is reassessed at each financial year-end.
In 2012 the reassessment led to the shortening of the period in range between 1 – 4 years and to the following financial increase or (decrease):

thousands of EUR	2012	2013	2014	2015	After 2015
Revenue	2,494	(59)	(425)	(871)	(1,139)
Other operating costs	2,378	(185)	(551)	(535)	(1,107)
Profit before tax	116	126	126	(336)	(32)

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 14.

Asset retirement obligation
The Group enters into lease contracts for land and premises on which mobile communication network masts are sited. The Group is committed by these contracts to dismantle the masts and restore the land and premises to their original condition. Management anticipates the probable settlement date of the obligation to equal useful life of construction of a mast, which is estimated to be 50 years. The remaining useful life of masts ranges from 31 to 50 at 31 December 2012. Management's determination of the amount of the asset retirement obligation (Note 24) 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 24 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 its ability to reliably estimate such future outflows. If these recognition criteria are met a provision is recorded in the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Such judgments and estimates are continually reassessed taking into consideration the developments of the legal cases and proceedings and opinion of lawyers and other subject matter experts involved in resolution of the cases and proceedings. The factors considered for individual cases are described in Notes 24 and 29.

2.19 Comparatives
Certain balances included in comparative information have been reclassified in order to conform to the current year presentation. These adjustments, in accordance with IAS 1.38, have been made for the purpose of comparability of data, reported periods and includes the following main changes:

a) Separate lines within Revenue (Note 4) were changed and the comparatives 2011 modified due to reassessment of internal management reporting structure.

b) Balances of outsourced services of EUR 11,860 thousand and postal services of EUR 4,949 thousand are disclosed in Installation services of EUR 1,478 thousand, Logistics of EUR 3,299 thousand, Printing and postage of EUR 5,695 thousand and Other costs of EUR 6,337 thousand (Note 7) in the 2011 comparatives. In the 2011 Note 7 these items were presented within Outsourced services and Postal services.

c) Internally developed intangible assets are disclosed in the separate column within Intangible assets (Note 13) in the 2011 comparatives.
In the 2011 Note 14 these items were presented within column Software.

d) Separate lines within Inventories (Note 18) were changed and the comparatives 2011 modified due to reassessment of internal management reporting structure.

e) Balance of trade payables to DT AGcompany of EUR 8,953 thousand is disclosed at separate line (Note 25) in the 2011 comparatives. In the 2011

Note 24 this item was presented within Trade payables to related parties.

f) Balances of commitments for the acquisition of intangible assets from DT AG of EUR 6,150 thousand and from third parties of EUR 8,453 thousand are disclosed at separate lines (Note 27) in the 2011 comparatives. In the 2011 Note 27 these items were presented within Commitments for the acquisition of intangible assets.
g) Balances of commitments for the purchase of services and inventory from DT AG of EUR 1,330 thousand, from the other related parties of EUR 15,341 thousand and from third parties of EUR 76,471 thousand are disclosed at separate lines (Note 27) in the 2011 comparatives. In the 2011 Note 27 these items were presented within Commitments for the purchase of services and inventory.

Reclassification of balances had no impact on balances in the statement of financial position as of 1 January 2011, therefore no opening statement of financial position as at 1 January 2011 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 2012

There are no IFRS or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have material impact on the Group.

- Amendment to IFRS 1 First-time adoption of International Financial Reporting Standards, effective for annual periods beginning on or after 1 July 2011

  The amendments encompass: i) provision of guidance on presentation of financial statements for a first-time adopter whose functional currency was subject to severe hyperinflation and ii) removal of fixed dates for first-time adopters by changing reference to a fixed date "1.1.2004" with "the date of transition to IFRSs".

  The standard and amendment is not relevant for the Group.

- Amendment to IFRS 7 Disclosures – Transfers of Financial Assets, 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 statement of financial position. 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.

  The amendment is not relevant for the Group.

- Amendment to IAS 12 Income taxes, effective for annual periods beginning on or after 1 January 2012

  The amendment concerns measurement of deferred tax arising from assets measured at fair value in accordance with IAS 40 Investment Property and introduces an exemption to current principle when the measurement depends on whether the carrying amount of the asset is expected to be recovered through use or sale.

  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 2012 and which the Group has not early adopted

- Amendment to IFRS 1 First time adoption of International Financial Reporting Standards, effective for annual periods beginning on or after 1 January 2013

  The amendment addresses how the first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRS.

- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosures of Interests in Other Entities, effective for annual periods beginning on or after 1 January 2014 (for Europian Union companies).

  The amendments clarify the transition guidance in IFRS 10. The amendments also provide additional transition relief in IFRS 10, IFRS 11 and IFRS 12, limiting the requirement to provide adjusted comparative information to only preceding comparative period. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.

- Amendments within Annual improvements project 2009-2011, effective for annual periods beginning on or after 1 January 2013

  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

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 minimize 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 also 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 is responsible for financial risk management, in accordance with guidelines approved by the Board of Directors and the Deutsche Telekom Group Treasury. The Treasury works in association with the Group's operating units and with the Deutsche Telekom Group Treasury. There are policies in place to cover specific areas, such as market risk, credit risk, liquidity risk, 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 spotmarket 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.

For all planned, but not yet determined, foreign currency denominated cash flows (uncommitted exposure) of the following 12 months (rolling 12 month approach) a hedging ratio of at least 50% is applied. The Group uses term deposits in foreign currencies to hedge these uncommitted exposures (Note 20).

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

In 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 matured on the date of the anticipated foreign currency cash expenditures. The Group's foreign currency risk relates mainly to the changes in USD foreign exchange rates, with immaterial risk related to financial assets and financial liabilities denominated in other foreign currencies.

The following table details the sensitivity of the Group's profit before tax and equity to a 10% increase/decrease in the 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		2012	2011
Profit before tax	Depreciation of EUR by 10%	406	(106)
	Appreciation of EUR by 10%	(332)	87
Equity	Depreciation of EUR by 10%	329	(86)
	Appreciation of EUR by 10%	(269)	70

3.1.2 Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group entered into a master agreement with DT AG in October 2008 based on which the Group provided loans to DT AG (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 optimize its exposure towards interest rate risk using a mix of fixed–rate and floating–rate securities. At the end of 2012, 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 19.

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 20, 21 and 22.

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

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, loans and trade and finance lease 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 April 2012 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 30,000 thousand. In total, Poštová banka, a.s. pledged 35,000,000 pieces of the state bond SK4120006503 with a nominal value of EUR 35,000 thousand. No other significant agreements reducing the maximum exposure to credit risk had been concluded at 31 December 2012.

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 2012	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	96,695	1,102	124	60	110	232
Finance lease receivable	4,509	-	-	-	-	-

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	-	-	-	-	-

No significant individually impaired trade receivables were included in the allowance for impairment losses in 2012 and 2011.

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 2012	**On demand**	**Less than 3 months**	**3 to 12 months**	**Over 1 year**	**Total**
Trade payables	13,007	108,216	98	250	121,571
Put option - liability	-	-	12,161	-	12,161
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

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 2012.

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 at 31 December 2012 EUR 1,609,495 thousand (2011: EUR 1,641,208 thousand).

4. REVENUE

thousands of EUR	**2012**	**2011**
Fixed network revenue	314,899	353,766
Mobile network revenue	397,644	432,074
Terminal equipment	34,147	24,400
System solutions / IT	46,601	44,802
Other	44,081	36,327
	837,372	**891,369**

5. STAFF COSTS

thousands of EUR	**2012**	**2011**
Wages and salaries	104,734	116,436
Social security contributions	26,132	29,527
	130,866	**145,963**

	2012	**2011**
Number of employees at period end	3,835	4,198

Number of employees does not include expatriates working for the Group at 31 December 2012: 2 (2011: 3).

6. OTHER OPERATING INCOME

thousands of EUR	2012	2011
Gain on disposal of property and equipment, net	1,113	1,022
Income from material sold, net	681	1,991
Loyalty program, net	-	2,167
Income from rental of premises	2,480	2,464
Reversal of impairment of property and equipment (Note 12)	553	289
Other	6,130	5,880
	10,957	**13,813**

7. OTHER OPERATING COSTS

thousands of EUR	2012	2011
Repairs and maintenance	25,472	22,263
Installation services	3,114	1,478
Marketing costs	23,070	24,800
Energy	18,029	16,641
Printing and postage	4,926	5,695
Logistics	3,301	3,299
Rentals and leases	18,160	19,486
IT services	8,518	12,640
Dealer commisions	23,832	21,759
Frequency and other fees to Telecommunications Office (Note 28)	3,507	7,353
Content fees	13,830	11,920
Consultancy	9,157	9,900
Bad debts expenses	4,542	2,866
Customer solutions	15,978	14,038
Fees paid to DT AG	4,682	4,658
Other	19,110	28,201
Own work capitalized	(18,136)	(15,447)
	181,092	**191,550**

8. FINANCIAL INCOME

thousands of EUR	2012	2011
Interest on short-term deposits and current bank accounts	1,108	1,742
Interest on loans (Note 28)	1,806	2,777
Interest on held-to-maturity investments	1,016	1,356
Interest from finance lease	162	121
Other	827	830
	4,919	**6,826**

9. FINANCIAL EXPENSE

thousands of EUR	2012	2011
Unwinding of put option liability	470	411
Amounts paid to former owner of PosAm	580	980
Change in fair value of earn-out payable (Note 25)	-	60
Impairment of held-to-maturity investments	-	199
Employee benefits - interest cost	393	377
Foreign exchange losses, net	88	174
Interest cost on restoration obligations	220	182
Net loss on financial instruments held for trading	-	52
Bank charges and other financial expense	51	88
	1,802	**2,523**

10. TAXATION

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

thousands of EUR	2012	2011
Current tax expense	35,716	41,895
Deferred tax expense / (income)	12,664	(12,252)
Other income tax	2,118	-
Income tax expense reported in the income statement	**50,498**	**29,643**

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	2012	2011
Profit before income tax	112,531	141,541
Income tax calculated at the statutory rate of 19% (2011: 19%)	21,381	26,893
Effect of income not taxable and expenses not tax deductible:		
(Release) / creation of legal and regulatory provisions	(195)	67
Impairment of goodwill	-	570
Other tax non-deductible items, net	723	2,015
Tax charge in respect of prior years	152	98
Other income tax	2,118	-
Effect of change in tax rate	26,319	-
Income tax at the effective tax rate of 45% (2011: 21%)	**50,498**	**29,643**

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

thousands of EUR	1 January 2012	Through income statement	Through other com-prehensive income	31 December 2012
Difference between carrying and tax value of fixed assets	(148,921)	(13,422)	-	(162,343)
Allowance for held-to-maturity investments	1,960	412	-	2,372
Staff cost accruals	2,213	(1,156)	-	1,057
Allowance for bad debts	2,493	85	-	2,578
Termination benefits	436	208	-	644
Other	2,589	1,209	373	4,171
Net deferred tax liability	**(139,230)**	**(12,664)**	**373**	**(151,521)**

thousands of EUR	1 January 2011	Through income statement	Through other com-prehensive 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 asset of EUR 190 thousand is recognized in respect of subsidiary PosAm and deferred tax liabilities of EUR 151,711 thousand in respect of other entities within the Group. The Group offsets deferred tax assets and deferred tax liabilitites if, and only if, those relate to income taxes levied by the same taxation authority on the same taxable entity.

thousands of EUR	2012	2011
Deferred tax asset to be settled within 12 months	257	129
Deferred tax asset to be settled after more than 12 months	42	-
Deferred tax liability to be settled after more than 12 months	(109)	(63)
Net deferred tax asset	**190**	**66**

thousands of EUR	2012	2011
Deferred tax asset to be settled within 12 months	8,639	7,922
Deferred tax asset to be settled after more than 12 months	3,366	2,414
Deferred tax liability to be settled within 12 months	(969)	(144)
Deferred tax liability to be settled after more than 12 months	(162,747)	(149,488)
Net deferred tax liability	**(151,711)**	**(139,296)**

11. ASSETS HELD FOR SALE

	Pozemky, budovy a príslušenstvo	
thousands of EUR	2012	2011
At 1 January	-	1,134
Net transfer to property and equipment (Note 12)	-	(978)
Assets sold	-	(156)
At 31 December	**-**	**-**

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.

12. 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 2012							
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**
Additions	392	9,909	9,878	2,776	13,537	35,317	71,809
Depreciation charge	(5,042)	(32,303)	(53,614)	(32,011)	(33,558)	-	(156,528)
Impairment charge	(524)	-	(4)	-	(375)	-	(903)
Reversal of impairment	80	-	8	-	89	376	553
Disposals	(127)	(5)	(51)	(7)	(290)	(105)	(585)
Transfers	759	1,224	(12,789)	29,174	8,703	(27,071)	-
At 31 December 2012							
Cost	182,548	987,141	1,145,742	363,930	350,298	64,601	3,094,260
Depreciation	(79,732)	(475,550)	(1,059,073)	(309,449)	(251,310)	(643)	(2,175,757)
Net book value	**102,816**	**511,591**	**86,669**	**54,481**	**98,988**	**63,958**	**918,503**

Property and equipment, excluding motor vehicles, is insured to a limit of EUR 26,035 thousand (2011: EUR 25,000 thousand). Each motor vehicle is insured to a limit of EUR 5,000 thousand (2011: EUR 2,500 thousand) for damage on health and expenses related to death and EUR 1,000 thousand (2011: EUR 664 thousand) for damage caused by destroyed, seized or lost items, lost profits.

The impairment charge relates mainly to the property and equipment which the Group intends to sell.

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 advance	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**

13. INTANGIBLE ASSETS

thousands of EUR	Customer contracts	Licenses	Goodwill	Software	Internally developed intangible assets	Other	Total
At 1 January 2012							
Cost	423,381	133,379	84,349	427,133	3,733	35,892	1,107,867
Amortization	(256,166)	(55,322)	(3,000)	(385,245)	(715)	(2,982)	(703,430)
Net book value	**167,215**	**78,057**	**81,349**	**41,888**	**3,018**	**32,910**	**404,437**
Additions	-	1,838	-	16,324	76	14,532	32,770
Amortization charge	(36,542)	(7,140)	-	(34,619)	(338)	(282)	(78,921)
Disposals	-	-	-	(135)	-	(33)	(168)
Transfers	-	-	-	18,793	9	(18,802)	-
At 31 December 2012							
Cost	418,322	135,309	84,349	461,123	3,818	29,406	1,132,327
Amortization	(287,649)	(62,554)	(3,000)	(418,872)	(1,053)	(1,081)	(774,209)
Net book value	**130,673**	**72,755**	**81,349**	**42,251**	**2,765**	**28,325**	**358,118**

In August 2011 the Telecommunications 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 at 31 December 2012 is EUR 41,000 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 at 31 December 2012 and remaining useful lives are:
EUR 95,974 thousand and 5 years for post-paid business customers,
EUR 20,888 thousand and 1 year for post-paid residential customers,
EUR 4,385 thousand and 3 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 at 31 December 2012 of EUR 9,426 thousand.

Net book value of the category Other includes Intangible assets in progress of EUR 28,041 thousand (2011: EUR 32,353 thousand).

For carrying value and impairment of goodwill refer to Note 14.

thousands of EUR	Customer contracts	Licenses	Goodwill	Software	Internally developed intangible assets	Other	Total
At 1 January 2011							
Cost	418,678	85,612	84,349	400,121	3,510	41,605	1,033,875
Amortization	(214,966)	(49,026)	-	(359,823)	(384)	(7,273)	(631,472)
Net book value	**203,712**	**36,586**	**84,349**	**40,298**	**3,126**	**34,332**	**402,403**
Additions	-	47,767	-	12,202	218	20,171	80,358
Amortization charge	(36,497)	(6,296)	-	(31,213)	(331)	(416)	(74,753)
Impairment charge	-	-	(3,000)	-	-	(40)	(3,040)
Transfers	-	-	-	20,601	5	(21,137)	(531)
At 31 December 2011							
Cost	423,381	133,379	84,349	427,133	3,733	35,892	1,107,867
Amortization	(256,166)	(55,322)	(3,000)	(385,245)	(715)	(2,982)	(703,430)
Net book value	**167,215**	**78,057**	**81,349**	**41,888**	**3,018**	**32,910**	**404,437**

14. 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	Slovak Telekom	PosAm	Zoznam a Zoznam Mobile	Total
Goodwill allocated to cash-generating units	73,313	6,368	4,668	84,349
Impairment	-	-	(3,000)	(3,000)
	73,313	**6,368**	**1,668**	**81,349**

Fixed and mobile telecommunication business (Slovak Telekom)

The goodwill was recognized at the acquisition of T-Mobile in December 2004. Since 2011, after the merger (Note 1), it is tested for impairment at the level of cash generating unit Slovak Telekom. 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 (2011: 2%) and a discount rate of 6.94% (2011: 6.99%). This growth rate does not exceed the long-term average growth rate for the market in which the cashgenerating unit operates. Further key assumptions on which management has based its determination of the recoverable amount of cashgenerating 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.

IT solutions business (PosAm)

The recoverable amount of the cash-generating unit was determined using cash flows projections based on the four-year financial plans that have been approved by management and are also used for internal purposes. Cash flows beyond the four-year period are extrapolated using a 2% growth rate (2011: 2%) and a discount rate of 7.72% (2011: 8.3%). 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.

Online business (Zoznam and 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 (2011: 2%) and a discount rate of 8.22% (2011: 10.92%). 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, content, application development and /or new products launch, other IT services, customer acquisition and retention costs, capital expenditure and market share.
In 2011, the carrying value of the cash generating unit exceeded its recoverable amount based on value in use calculation by EUR 3,000 thousand and the Group allocated impairment to goodwill in the same amount. The recoverable amount of the cash-generating unit based on value in use calculation was determined to exceed its carrying value in 2012. 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.

15. TRADE AND OTHER RECEIVABLES

thousands of EUR	2012	2011
Non-current		
Trade receivables	6,228	-
Finance lease receivable (Note 16)	2,907	4,509
	9,135	**4,509**
Current		
Trade receivables from third parties	101,497	102,541
Trade receivables from DT AG (Note 28)	2,196	591
Trade receivables from other related parties (Note 28)	5,111	4,179
Other receivables from third parties	2,486	1,778
Other receivables from DT AG (Note 28)	-	1,048
Finance lease receivable (Note 16)	1,602	1,554
	112,892	**111,691**

Trade receivables are net of an allowance of EUR 22,717 thousand (2011: EUR 22,549 thousand).

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

thousands of EUR	2012	2011
At 1 January	22,549	27,284
Charge for the year	12,438	6,197
Utilised	(4,697)	(9,424)
Reversed	(7,573)	(1,508)
At 31 December	**22,717**	**22,549**

16. 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	2012	2011
Gross investment in the lease		
Not later than 1 year	1,716	1,716
Later than 1 year and not later than 5 years	2,987	4,703
Unearned finance income	(194)	(356)
Present value of minimum lease payments	**4,509**	**6,063**

thousands of EUR	2012	2011
Present value of minimum lease payments		
Not later than 1 year (Note 15)	1,602	1,554
Later than 1 year and not later than 5 years (Note 15)	2,907	4,509
	4,509	**6,063**

17. PREPAID EXPENSES AND OTHER ASSETS

thousands of EUR	2012	2011
Non-current		
Easement	9,801	9,931
Deferred customer acquisition fees	1,885	5,067
Other	2,528	3,221
	14,214	**18,219**
Current		
Deferred customer acquisition fees	3,202	3,863
Other	4,191	3,234
	7,393	**7,097**

18. INVENTORIES

thousands of EUR	2012	2011
Materials	2,329	2,991
Goods	11,709	8,261
	14,038	**11,252**

Inventories are net of an allowance of EUR 2,422 thousand (2011: EUR 2,696 thousand). The write-down of inventories in amount of EUR 357 thousand (2011: write-down reversal EUR 540 thousand) was recognized in cost of material and equipment.

19. HELD-TO-MATURITY INVESTMENTS

thousands of EUR	2012	2011
State bonds	41,227	54,866
State treasury bill	29,979	24,738
Bank bond	3,120	3,120
	74,326	**82,724**

The state bonds and state treasury bill were issued by Ministry of Finance of Slovak Republic and have short term maturity of up to 1 year. The Group has the ability and intends to hold these investments till maturity.

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 2012 and equity at 31 December 2012 would increase/decrease by EUR 50 thousand/ EUR 66 thousand (2011: EUR 127 thousand/EUR 170 thousand).

20. TERM DEPOSITS OVER 3 MONTHS

thousands of EUR	2012	2011
Term deposits over 3 months	105,961	-
	105,961	**-**

Term deposits over 3 months consist of short term bank deposits with original maturity from 4 to 12 months. Credit quality of deposits at banks is as follows: rating A2: EUR 105,961 thousand.

21. LOANS

thousands of EUR	2012	2011
Loans to Deutsche Telekom AG (Note 28)	-	190,000
	-	**190,000**

The loans granted to Deutsche Telekom AG are not secured. Deutsche Telekom AG has rating Baa1.

22. CASH AND CASH EQUIVALENTS

thousands of EUR	2012	2011
Cash and cash equivalents	371,488	178,633
	371,488	**178,633**

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 A2: EUR 94,652 thousand, rating A3: EUR 201,562 thousand, rating Baa1: EUR 73,893 thousand, rating Baa2: EUR 2 thousand and rating Baa3: EUR 957 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 2012, Slovak Telekom had authorized and issued 26,027,500 ordinary shares (2011: 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.

The structure of shareholders of the Company at 31 December 2012:

Shareholder' name	Number of shares acquired	Value of acquired shares in EUR	Acquired share	Acquired voting rights
Deutsche Telekom AG	13,274,025	440,697,630	51%	51%
Ministry of the Economy of the Slovak Republic	8,849,350	293,798,420	34%	34%
National Property Fund of the Slovak Republic	3,904,125	129,616,950	15%	15%
	26,027,500	**864,113,000**		

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 (Note 1).

Financial statements of the Group for the year ended 31 December 2011 were authorized for issue on behalf of the Board of Directors of the Group on 15 March 2012.

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 30 April 2012, 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 2011 profit being partially declared for dividends and partially retained.

In 2012 Slovak Telekom declared and paid a dividend of EUR 3.53 per share (2011: EUR 4.99 per share). On the basis of this proposed appropriation, total dividends of EUR 92,000 thousand (2011: EUR 130,000 thousand) were paid in May 2012.

Approval of the 2012 profit distribution will take place at the Annual General Meeting scheduled for 29 April 2013.

24. PROVISIONS

thousands of EUR	Legal and regulatory claims	Asset retirement obligation	Termination benefits	Employee benefits	Other	Total
At 1 January 2012	2,113	7,983	2,295	737	2,474	15,602
Arising during the year	102	57	3,176	3,758	1,777	8,870
Reversals	(568)	(98)	-	(1,210)	(343)	(2,219)
Utilised	(560)	-	(2,672)	(45)	(829)	(4,106)
Transfer to current liabilities	-	-	-	-	(661)	(661)
Interest impact	-	220	-	375	18	613
At 31 December 2012	**1,087**	**8,162**	**2,799**	**3,615**	**2,436**	**18,099**
Non-current	-	8,162	-	3,615	1,079	12,856
Current	1,087	-	2,799	-	1,357	5,243
	1,087	**8,162**	**2,799**	**3,615**	**2,436**	**18,099**

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 2012. For contingent liabilities refer to Note 29.

Asset retirement obligation

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

Termination benefits

The restructuring of the Group's operations resulted in headcount reduction of 374 employees in 2012. The Group expects a further headcount reduction of 251 employees in 2013 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 authorized 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.
In 2012 the Group recognized an expense resulting from termination benefits in amount of EUR 6,057 thousand (2011: EUR 9,487 thousand) in staff costs.

Retirement and jubilee benefits

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

thousands of EUR	Retirement benefits not recognized	Retirement benefits recognized	Jubilee	Total
Present value of the defined benefit obligation				
At 1 January 2012	6,470	528	209	7,207
Interest cost	-	364	11	375
Amortized past service cost	(1,111)	1,111	-	-
Current service cost	-	455	19	474
Benefits paid	-	(27)	(18)	(45)
Actuarial loss	-	2,131	42	2,173
Curtailment gain	-	(1,210)	-	(1,210)
At 31 December 2012	**5,359**	**3,352**	**263**	**8,974**
Past service cost not recognized in the statement of financial position	(5,359)	-	-	(5,359)
Provision recognized in the statement of financial position at 31 December 2012	**-**	**3,352**	**263**	**3,615**

There were no special events causing any new past service cost during 2012. The curtailment gain in amount of EUR 1,210 thousand resulted from a reduction in the number of participants covered by the retirement and jubilee benefit plans.

Principal actuarial assumptions used in determining the defined benefit obligation and the curtailment effect in 2012 include the discount rate of 3.2%. The expected expense for 2012 has been determined based on the discount rate as at the beginning of the accounting period of 5.21%. Average retirement age is 62 years. The expected growth of nominal wages over the long term is 2.9% with minor adjustments for the first four years.

Cumulative amount of actuarial gains and losses net of related deferred tax recognized in Other comprehensive income amounted to EUR 622 thousand at 31 December 2012.

Amounts for the current and previous four periods are as follows:

thousands of EUR	2012	2011	2010	2009	2008
Present value of defined benefit obligation recognized	3,615	737	2,637	1,358	1,636
Actuarial gains and (losses) recognized in Other comprehensive income	(2,131)	3,299	(616)	510	(110)

25. TRADE AND OTHER PAYABLES AND DEFERRED INCOME

thousands of EUR	2012	2011
Non-current		
Trade payables to third parties	250	-
Put option – liability (Note 1)	-	11,692
Other payables	5	64
Deferred activation fees	2,955	5,093
Other deferred income	1,875	1,107
	5,085	**17,956**
Current		
Trade payables to third parties	108,918	97,651
Trade payables to DT AG (Note 28)	8,105	8,953
Trade payables to other related parties (Note 28)	4,298	2,517
Amounts due to employees	17,760	21,317
Contingent consideration (earn-out)	-	2,438
Put option – liability (Note 1)	12,161	-
Other payables to third parties	2,662	2,294
Other payables to other related parties (Note 28)	118	56
Fixed network prepaid services	21,991	22,944
Mobile network prepaid services	8,678	9,609
Deferred activation fees	3,046	3,833
Tax liabilities (other than income tax)	10,829	7,464
Other	7,168	3,909
	205,734	**182,985**

Contingent consideration (earn-out) for the acquisition of PosAm was paid in 2012 to the former owner of PosAm.

Amounts due to employees include social fund liabilities:

thousands of EUR	2012	2011
At 1 January	221	140
Additions	1,708	1,786
Utilisation	(1,609)	(1,705)
At 31 December	**320**	**221**

26. FINANCE LEASE – THE GROUP AS LESSEE

The Group leases vehicles and diesel aggregate under finance leases. Net book value of vehicles is EUR 79 thousand (2011: EUR 210 thousand) and net book value of the aggregate is EUR 7 thousand (2011: EUR 16 thousand) at 31 December 2012. 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 its residual value 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 10% per annum.

thousands of EUR	2012	2011
Minimum lease payments		
Not later than one year	53	103
Later than one year and not later than three years	5	59
Later than three and not later than five years	-	5
	58	**167**

27. COMMITMENTS

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

thousands of EUR	2012	2011
Acquisition of property and equipment from third parties	10,717	8,690
Acquisition of intangible assets from third parties	1,311	8,453
Acquisition of intangible assets from DT AG (Note 28)	6,150	6,150
Acquisition of intangible assets from other related parties (Note 28)	7,482	-
Purchase of services and inventory from third parties	60,871	76,471
Purchase of services and inventory from DT AG (Note 28)	29	1,330
Purchase of services and inventory from other related parties (Note 28)	13,525	15,341
	100,085	**116,435**

The future minimum operating lease payments were as follows:

thousands of EUR	2012	2011
Operating lease payments due within one year	10,613	6,114
Operating lease payments due between one and five years	12,378	6,927
Operating lease payments due after five years	5,951	111
	28,942	**13,152**

The Group has commitments under operating leases of EUR 20,531 thousand from rental of technology space, EUR 4,761 thousand from rental of shops and EUR 2,726 thousand from rental of administration premises.

28. RELATED PARTY TRANSACTIONS

thousands of EUR	Receivables		Payables		Sales and income		Purchases		Purchases	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
DT AG	2,196	191,639	8,105	8,953	5,720	5,459	6,536	10,328	6,179	7,480
Other entities in DT AG group	5,109	4,177	4,411	2,573	13,174	11,741	13,536	11,744	21,007	15,341
Other shareholders of the Group	2	2	5	-	58	51	14	1	-	-
	7,307	**195,818**	**12,521**	**11,526**	**18,952**	**17,251**	**20,086**	**22,073**	**27,186**	**22,821**

The Group conducts business with its ultimate parent, Deutsche Telekom AG and its subsidiaries, associates and joint ventures. Related parties transactions were made on terms equivalent to those that prevail in arm's length transaction. 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 1,220 thousand (2011: EUR 1,852 thousand) from related parties.

The short-term loan granted by the Group to Deutsche Telekom AG was repaid in 2012 (2011: EUR 190,000 thousand). Interest related to the loan amounted to EUR 1,806 thousand (2011: EUR 2,777 thousand) (Notes 8, 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, 13). The Group also incurred expenses of EUR 3,507 thousand (2011: EUR 7,353 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 16), delivery of internet connectivity and other telecommunications services. The total value of the contract is approximately EUR 23,859 thousand. In 2012, the Group recognized revenue related to this contract of EUR 5,351 thousand (2011: 12,426 thousand).

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 2012, the Group recognized revenue related to this contract of EUR 8,940 thousand (2011: 8,673 thousand).

During 2012 the Group purchased electricity and electricity distribution services from the Slovak Government related entities for EUR 8,614 thousand (2011: EUR 8,537 thousand).

During 2012 the Group purchased postal and cash collection services for EUR 5,413 thousand (2011: EUR 5,535 thousand) and leased space for EUR 1,938 thousand (2011: EUR 2,043 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 2012 or 2011.

Compensation of key management personnel

The key management personnel, 21 in number (2011: 20) include members of the Executive Management Board, Board of Directors and Supervisory Board.

thousands of EUR	**2012**	**2011**
Short term employee benefits	2,180	2,495
Cash based incentive program payments	-	270
	2,180	**2,765**

	2012	**2011**
Executive Management Board	2,078	2,666
Board of Directors	57	55
Supervisory Board	45	44
	2,180	**2,765**

29. CONTINGENCIES

Legal and regulatory cases

On 9 May 2012 the Company has received a Statement of Objections (SO) issued by the European Commission (“Commission”), addressed to DT AG as well. In the SO, the Commission preliminary accuses the Company of ongoing refusal to supply and margin squeeze for unbundled local loops and wholesale broadband access. The Commission alleges on a preliminary basis that the Company implemented a strategy designed to exclude competitors from retail broadband access markets in the Slovak Republic. If proven, the allegations against the Company could lead to a finding that is has infringed Article 102 of the Treaty on the Functioning of the Europena Union, as well as the imposition of a fine. On 6 September 2012 the Company sent the response to SO inclusive several Annexes, rebutting all Commission’s accusations. On 6 and 7 November 2012 the oral hearing took place. As of the date of these financial statements, Commission has not decided yet whether it will issue an infringement decision. If the Commission adopts an infringement decision, it will be appealable to the General Court of the European Union. The management believes that the Company brought strong and relevant arguments in its response to the SO and at the Oral Hearing which significantly undermine and rebut the Commisssion’s allegations against the Company. Should the Commission decide to adopt an infringement decision, the fine will be calculated as a percentage from relevant turnover with a cap of 10% from total prior year turnover. If the Commission was to establish so-called parental liability, such cap would be calculated on the basis of the turnover of the DT group. The case is complex and there are multiple factors impacting the outcome of the case that at this stage of the proceedings remain contested between the Commission, the Company and DT AG. The Commission did not indicate the level of fine at this stage of the proceedings. The fines imposed in the abuse of dominance cases brought against European telecommunication operators were considerably below the aforementioned cap. The Company’s level of potential financial exposure would in great part depend on various factors including duration and gravity of the infringement, as well as the issue of parental liability and other factors that differ significantly between the cases. Hence, it is therefore not possible to draw meaningful conclusions from the prior decisions. DT AG and the Company will be jointly and severally liable to the Commission in relation to this case, if the Commission decides that the parental liability applies. Having considered all above mentioned and the legal letter received, it is not possible to establish a reliable estimate of the outcome at this stage of the proceedings. There has been no provision recorded in these financial statements with respect to the described case.

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. During 2012 the Regional Court made a decision on trial costs, when the Company is obliged to pay the plaintiff of EUR 3,652 thousand. The Company appealed to the Supreme Court against the decision on additional trial costs. Such appeal has a suspensive effect, i.e. the Company is not obliged to pay at least until the decision of the Supreme Court on the appeal.

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, the Company 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. Appeal of AMO was submitted to the Supreme Court on 26 September 2012. 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. On 26 March 2012, the Company was delivered a decision of AMO on closing the proceedings in this case. The decision is final.

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 24).

30. FINANCIAL ASSETS AND LIABILITIES

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

thousands of EUR	Carrying amount		Fair value	
	2012	2011	2012	2011
Financial assets				
Non-current				
Trade receivables (Note 15)	6,228	-	6,228	-
Finance lease receivable (Note 15)	2,907	4,509	2,907	4,509
Current				
Held-to-maturity investments (Note 19)	74,326	82,724	74,132	82,757
Term deposits over 3 months (Note 20)	105,961	-	105,961	-
Loans (Note 21)	-	190,000	-	190,000
Trade receivables (Note 15)	108,804	107,311	108,804	107,311
Finance lease receivable (Note 15)	1,602	1,554	1,602	1,554
Cash and cash equivalents (Note 22)	371,488	178,633	371,488	178,633
Financial liabilities				
Non-current				
Trade payables (Note 25)	250	-	250	-
Put option – liability (Note 25)	-	11,692	-	11,692
Current				
Trade payables (Note 25)	121,321	109,121	121,321	109,121
Put option – liability (Note 25)	12,161	-	12,161	-
Contingent consideration (earn-out) (Note 25)	-	2,438	-	2,438

The fair value of the held-to-maturity investments was established based on market values provided by banks who act as depositors of the securities.

The fair value of other financial assets and financial liabilities approximate their carrying amounts at the statement of financial position date.

31. AUDIT FEES

In 2012 the Group obtained from the audit company PricewaterhouseCoopers Slovensko, s.r.o. statutory audit services in amount of EUR 195 thousand (2011: EUR 169 thousand), other assurance services in amount of EUR 145 thousand (2011: EUR 120 thousand) and other services in amount of EUR 7 thousand (2011: EUR 24 thousand).

32. EVENTS AFTER THE REPORTING PERIOD

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 2012.

Slovak Telekom, a.s.

SEPARATE FINANCIAL STATEMENTS

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

FOR THE YEAR ENDED 31 DECEMBER 2012

CONTENTS

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 of the Company standing alone as at 31 December 2012 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 standing alone as at 31 December 2012, 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
T: +421 (0) 2 59350 111, F: +421 (0) 2 59350 222, www.pwc.com/sk

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

pwc

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 29 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.

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

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

Ing. Štefan Čupil
UDVA licence No.: 1088

Bratislava, 14 March 2013

Our report has been prepared in Slovak and in English 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.

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER

thousands of EUR	Notes	2012	2011
Revenue	4	**807,725**	**861,756**
Staff costs	5	(119,141)	(134,389)
Material and equipment		(97,396)	(76,643)
Depreciation, amortization and impairment losses	12,13	(233,785)	(232,111)
Interconnection and other fees to operators		(87,342)	(108,214)
Other operating income	6	11,028	13,786
Other operating costs	7	(173,762)	(185,281)
Operating profit		**107,327**	**138,904**
Financial income	8	5,517	7,826
Financial expense	9	(736)	(3,609)
Profit before tax		**112,108**	**143,121**
Taxation	10	(49,890)	(29,188)
Profit for the year		**62,218**	**113,933**

The financial statements on pages 81 to 115 were authorized for issue on behalf of the Board of Directors of the Company on 14 March 2013 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:

Mgr. Marek Šilhár
Senior Manager of Accounting and Taxes

Preparer of the financial statements:

Ing. Miroslava Solárová
Manager of Financial Transactions,
Reporting and Taxes

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

thousands of EUR	Notes	2012	2011
Profit for the year		**62,218**	**113,933**
Other comprehensive income			
Actuarial (losses) / gains on defined benefit plans	25	(2,131)	3,299
Deferred tax income / (expense)	10	373	(627)
Other comprehensive income for the year, net of tax		**(1,758)**	**2,672**
Total comprehensive income for the year, net of tax		**60,460**	**116,605**

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER

thousands of EUR	Notes	2012	2011
ASSETS			
Non-current assets			
Property and equipment	12	916,908	1,002,447
Intangible assets	13	339,076	384,457
Investments in subsidiaries	15	16,731	16,731
Trade and other receivables	16	8,892	4,509
Prepaid expenses and other assets	18	13,700	17,847
		1,295,307	**1,425,991**
Current assets			
Inventories	19	13,831	11,192
Held-to-maturity investments	20	74,326	82,724
Term deposits over 3 months	21	105,961	-
Loans	22	-	190,000
Trade and other receivables	16	104,975	104,478
Prepaid expenses and other assets	18	6,436	6,533
Current income tax receivable		3,992	-
Cash and cash equivalents	23	365,592	172,414
		675,113	**567,341**
TOTAL ASSETS		**1,970,420**	**1,993,332**
EQUITY AND LIABILITIES			
Shareholders' equity			
Issued capital	24	864,113	864,113
Share premium	24	386,139	386,139
Statutory reserve fund		170,634	159,240
Other		634	2,380
Retained earnings and profit for the year		191,158	232,334
		1,612,678	**1,644,206**
Non-current liabilities			
Deferred tax	10	149,638	137,239
Provisions	25	12,673	9,912
Deferred income	26	4,326	5,943
		166,637	**153,094**
Current liabilities			
Provisions	25	4,873	5,414
Trade and other payables and deferred income	26	186,232	174,677
Current income tax liability		-	15,941
		191,105	**196,032**
Total liabilities		**357,742**	**349,126**
TOTAL EQUITY AND LIABILITIES		**1,970,420**	**1,993,332**

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER

thousands of EUR	Notes	Issued capital	Share premium	Statutory reserve fund	Other	Retained earnings	Total equity
Year ended 31 December 2011							
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	24	-	-	28,611	-	(28,611)	-
Other changes in equity		-	-	-	-	(9,469)	(9,469)
Dividends	24	-	-	-	-	(130,000)	(130,000)
At 31 December 2011		**864,113**	**386,139**	**159,240**	**2,380**	**232,334**	**1,644,206**
Year ended 31 December 2012							
At 1 January 2012		864,113	386,139	159,240	2,380	232,334	1,644,206
Profit for the year		-	-	-	-	62,218	62,218
Other comprehensive income		-	-	-	(1,758)	-	(1,758)
Total comprehensive income		**-**	**-**	**-**	**(1,758)**	**62,218**	**60,460**
Allocation to funds	24	-	-	11,394	-	(11,394)	-
Other changes in equity		-	-	-	12	-	12
Dividends	24	-	-	-	-	(92,000)	(92,000)
At 31 December 2012		**864,113**	**386,139**	**170,634**	**634**	**191,158**	**1,612,678**

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER

thousands of EUR	Notes	2012	2011
Profit for the year		**62,218**	**113,933**
Adjustments for:			
Depreciation, amortization and impairment losses	12,13	233,785	232,111
Interest income, net		(4,878)	(6,683)
Income tax expense	10	49,890	29,188
Gain on disposal of property and equipment	6	(1,071)	(996)
Impairment of investments in subsidiaries	9,15	-	2,500
Dividend income from subsidiaries	8,28	(603)	(1,020)
Other non-cash items		(573)	(4,073)
Movements in provisions		(581)	(3,378)
Changes in working capital:			
Change in trade and other receivables		(1,948)	11,382
Change in inventories		(2,404)	4,366
Change in trade and other payables		13,455	(8,384)
Cash flows from operations		**347,290**	**368,946**
Income taxes paid		(57,052)	(19,463)
Net cash flows from operating activities		**290,238**	**349,483**
Investing activities			
Purchase of property and equipment and intangible assets		(102,451)	(173,200)
Proceeds from disposal of property and equipment and intangible assets		1,778	1,845
Acquisition of interest in subsidiary		(2,438)	-
Dividends received	8,28	603	1,020
Acquisition of held-to-maturity investments		(70,582)	(39,273)
Proceeds from disposal of held-to-maturity investments		78,094	39,559
Disbursement of loans		(140,000)	(170,000)
Repayment of loans		330,000	65,059
Acquisition of short-term bank deposits		(136,029)	-
Termination of short-term bank deposits		30,000	60,000
Interest received		5,971	4,624
Net cash used in investing activities		**(5,054)**	**(210,366)**
Financing activities			
Dividends paid	24	(92,000)	(130,000)
Other charges paid		(6)	(1)
Net cash used in financing activities		**(92,006)**	**(130,001)**
Net increase in cash and cash equivalents		193,178	9,116
Cash and cash equivalents at 1 January	23	172,414	163,298
Cash and cash equivalents at 31 December	23	**365,592**	**172,414**

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.

Effective 1 July 2010 Slovak Telekom, a.s. and T-Mobile Slovensko, a.s. ("T-Mobile") have been legally merged. T-Mobile was wound up without liquidation by means of an up-stream merger. Slovak Telekom became a legal successor of T-Mobile and consequently has taken over their assets and liabilities. Since October 2011 the integrated Company operates on the market under one common brand named Telekom replacing brand names T-Com and T-Mobile.

The Company is the largest universal multimedia operator offering residential and corporate clientele benefits of comprehensive solutions provided from a single source. Slovak Telekom offers a full-array of data and voice services, and owns and operates the fixed and mobile telecommunications network covering almost the entire territory of the Slovak Republic. In the field of the fixed network, the Company systematically invests in the most advanced optical infrastructure, operates the Next Generation Network (NGN) and is the largest broadband provider in the country. As the first multimedia operator, it offers the IPTV (Magio TV) and satellite TV (Magio SAT) via fixed networks and satellite technology DVB-S2. In the field of mobile communication, it provides as the only operator internet connectivity via four technologies for high-speed data transmission - GPRS/EDGE, Wireless LAN (Wi-Fi), UMTS FDD/HSDPA/HSUPA and FLASH-OFDM. The Company established and operates public mobile telecommunications networks over the following frequencies: 900 MHz and 1800 MHz under the standard GSM (Global System for Mobile Communications), 2100 MHz under the standard UMTS (Universal Mobile Telecommunications System), 450 MHz under the Flash-OFDM standard to provide wireless broadband internet access and Managed Data Network Services and 26 GHz/28 GHz for Fixed Wireless Access (FWA).

The frequency authorization granted by the Telecommunications Office of the Slovak Republic for the provision of mobile services on 900 MHz, 1800 MHz and 450 MHz frequency bands is valid up to 31 August 2021. The UMTS license for 2100 MHz frequency band (including the 28/29 GHz frequency band for backhaul connections) is valid up to 31 August 2026. The 26 GHz/28 GHz frequency licenses granted by the Telecommunications Office of the Slovak Republic are valid until 21 December 2017.

Members of the Statutory Boards at 31 December 2012

Board of Directors

Chair:	Ing. Miroslav Majoroš
Vice-chair:	Ing. Michal Vaverka
Member:	Dr. Robert Hauber
Member:	Kerstin Günther
Member:	Dr. Ralph Rentschler
Member:	Ing. Miloš Šujanský, PhD., M.B.A.
Member:	Ing. Martin Mác

Supervisory Board

Chair:	Dr. Hans-Peter Schultz
Vice-chair:	Ing. Michal Lukačovič
Member:	Ing. Július Maličký
Member:	Milan Brlej
Member:	Ing. Peter Weber
Member:	Ing. Ján Hláčik
Member:	Mgr. Martin Habán
Member:	Cornelia Elisabeth Sonntag
Member:	Tanja Wehrhahn

In 2012 a number of changes were entered in the Commercial Register: Mr. Albert Pott and Mr. Róbert Sándor left the Board of Directors in September 2012 and were replaced by Ms. Kerstin Günther and Mr. Michal Vaverka. Mr. Michal Vaverka replaced Mr. Martin Mác in the position of Vice-chair of the Board of Directors. In addition, the Vice-chair Ms. Katarína Lešková left the Supervisory Board in September 2012 and was replaced by Mr. Michal Lukačovič. The Supervisory Board member positions of Mr. Ján Vozár and Mr. Miroslav Galamboš were replaced by Mr. Peter Weber and Mr. Martin Habán.

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 under the historical cost convention, except where disclosed otherwise.

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

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

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

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

The consolidated financial statements for the year ended 31 December 2012 have been prepared in compliance with International Financial Reporting Standards and IFRIC interpretations as adopted by the European Union. The consolidated financial statements are available at the Company's registered office, at the Register Court administering the Commercial Register of District Court Bratislava I, Slovak Republic and in the public administration information system (the Register) administered by the Ministry of Finance of the Slovak Republic.

2.2 Property and equipment

Property and equipment, except for land, is initially measured at historical cost, excluding the costs of day-to-day servicing. The cost of property and equipment acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, property and equipment is carried at cost less any accumulated depreciation and any accumulated impairment in value. 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.

Historical cost includes all costs directly attributable to bringing the asset into working condition for its use as intended by the management. In case of network, costs comprise all expenditures, including internal costs directly attributable to network construction, and include contractors' fees, materials and direct labour. Costs of subsequent enhancement are included in the asset's carrying amount or recognized as a separate asset, when it is probable that future economic benefits associated with the item will flow to the Company and the costs 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 (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included within other operating income or expense in the income statement in the period in which the asset is 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. Depreciation charge is identified separately for each significant part of an item of property and equipment.

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

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

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

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

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

Property and equipment are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and the sale is considered as highly probable. When property and equipment meet these criteria, 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 historical cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated 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 2.19.

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 to 13 years

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

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

Costs associated with the acquisition of long term frequency licenses are capitalized. Useful lives of concessions and licenses are 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 represents an excess of consideration transferred over Company's interest in net fair value of the net identifiable assets acquired, liabilities and contingent liabilities of the acquiree and the fair value of non-controlling interest in the acquiree. Following initial recognition, goodwill is measured at carrying value less any accumulated impairment losses. Goodwill is not amortized but it is reviewed for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired (Note 14). Carrying value of goodwill is compared to its recoverable amount, which is the higher of value in use and fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

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

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

For the purpose of assessing impairment, assets are grouped into cash generating units, representing the smallest groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Company determines the recoverable amount of a cash-generating unit on the basis of 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. 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. Discount rates used reflect risks specific to the cash-generating unit. Cash flows 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 an 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 sale of equipment is only recorded 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 and short-term deposits with original maturity of three months or less from the date of acquisition.

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

2.8 Financial assets
The Company classifies its financial assets as: loans and trade and finance lease receivables, financial assets at fair value through profit or loss, term deposits over 3 months 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. Regular purchases and sales of financial assets are recognized on the trade date – the date on which the Company commits to purchase or sell the asset. When financial assets are recognized, they are initially measured at fair value, plus, in case of investments not held at fair value through profit or loss, directly attributable transaction costs. Financial assets carried at fair value through profit or loss are initially 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.

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

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 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 financial year-end. These are classified as non-current assets. Trade and other receivables are initially recognized at fair value and subsequently measured at amortized cost, using the effective interest method, less allowance for impairment. For the purpose of impairment testing the estimated cash flows are based on the past experience of the collectibility of overdue receivables. Allowance for impairment reflects the estimated credit risk.

When a 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 recognized within other operating income in the income statement.

Amounts payable to and receivable from the same international telecommunication operators are shown net in the statement of financial position when a 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 in this category. A financial asset held for trading is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current. Gains or losses arising from changes in the fair value of "financial assets through profit or loss" category are presented in the income statement within financial income or financial expense in the period in which they arise.

Derivatives are also classified as held for trading. Gains or losses on assets held for trading are recognized in the income statement within financial income or financial expense.

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 income or financial expense.

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

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

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

If the effect of the time-value of money is material, provisions are discounted using a risk-adjusted, pre-tax discount rate. Where discounting is used, the increase in the provision due to the passage of time is 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 obligation is recognized in the period in which it has been incurred and it is considered to be an element of cost of the related non-current asset in accordance with IAS 16. The obligation is measured at present value, and it is depreciated over the estimated useful life of the related non-current asset. Upon settlement of the liability, the Company either settles the obligation for its recorded amount or incurs a gain or loss upon settlement.

2.13 Employee benefit obligations

Retirement and other long-term employee benefits

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

A defined contribution plan is a pension plan under which the Company pays fixed contributions into separate publicly or privately administered entities on a mandatory, contractual or voluntary basis. Once the contributions have been paid, the Company has no further payment obligations. The contribution is based on gross salary payments. The cost of these payments is charged to the income statement in the same period as the related salary cost.

The Company also provides defined retirement and jubilee benefit plans granting certain amounts of pension or jubilee payments that an employee will receive on retirement, usually dependant on one or more factors such as an age, years of service and compensation. These benefits are unfunded. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period, together with adjustments for unrecognized past-service cost. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The last calculation was prepared on 31 December 2012. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using discount rate of weighted-average yields for high-quality (Bloomberg Aa*) - non-cancellable, non-putable corporate bonds. The currency and term of the bonds are consistent with the currency and estimated term of the benefit obligations. Past service cost is 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 cost is 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. Current service cost, past service cost and curtailment gain are included within wages and salaries under staff costs and interest cost is included within employee benefits-interest cost under financial expense in the income statement.

Termination benefits

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

2.14 Revenue recognition

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

The Company recognizes revenue as follows:

The Company provides customers with narrow and broadband access to its fixed, mobile and TV distribution networks. Service revenue is 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 revenue is recognized in the period they relate to.

Revenue from prepaid cards is recognized when credit is used by a customer or when credit expires 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 Company's network. The Company pays a proportion of the revenue it collects from its customers to other operators for calls and other traffic that originate in the Company's network but use other operators' networks. Revenue from interconnect is recognized gross.

Content revenue is recognized gross or net of the amount due to a content provider. Depending on the nature of relationship with the content provider, gross presentation is used when the Company acts as a principal in the transaction with a final customer. Content revenue is recognized net if the Company acts as an agent, i.e. the content provider is responsible for service content and the Company does not assume risks and rewards of ownership. Revenue from multiple revenue arrangements is considered as comprising identifiable and separable components, to which general revenue recognition criteria can be applied separately. Numerous service offers are made up of two components, a product and a service. When separable components have been identified, an amount received or receivable from a customer is allocated to individual deliverables based on each component's fair value. Amount allocable to a delivered item(s) is limited to the amount that is not contingent upon the delivery of additional items or meeting other specified performance conditions (the 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 operating leases of equipment is recognized on a straight-line basis over lease period.

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

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

Revenue from maintenance services (generally a 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 but are billed on a basis of time and material used, is recognized when the services are provided.

Revenue from sale of hardware and software or from sales-type leases is recognized when risks of ownership are substantially transferred to a customer, provided there are no unfulfilled obligations that affect customer's final acceptance of the arrangement. 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. When a loan or receivable is impaired, the Company reduces its carrying amount to a recoverable amount. The recoverable amount is determined as an estimate of future cash flows discounted at the original effective interest rate of the instrument. The discount continues being unwinded as an interest income. Dividend income is recognized when the right to receive payment is established.

2.15 Leases

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

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

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

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

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

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

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

2.16 Operating profit

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

2.17 Foreign currency translation

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

2.18 Taxes

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

Current income tax

Current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted as of the statement of financial position date. Current income tax includes additional levy imposed by the Slovak government on regulated industries effective from 1 September 2012. The levy of 4.356% per annum (or 1.452% for period September – December 2012) is applied on the basis calculated as the profit before tax determined in accordance with the Slovak Accounting Standards reduced by a fixed deduction of EUR 3,000 thousand.

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

Deferred tax

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

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

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

Change of the income tax rate from 19% to 23%, effective from 1 January 2013, resulted in the increase of the deferred tax liability of EUR 26,024 thousand in these financial statements with the effect on the tax expense of EUR 25,992 thousand and the effect on the other comprehensive income of EUR 32 thousand.

2.19 Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent liabilities reported at the end of the period and the reported amounts of revenue and expenses for that period. Actual results may differ from these estimates.
In the process of applying the Company's accounting policies, management has made the following judgements, estimates and assumptions which have the most significant effect on the amounts 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 depreciation or 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 2012 and changed accounting estimates where appropriate. The table summarizes net increase or (decrease) in depreciation or amortization charge for the following categories of non-current assets:

thousands of EUR	2012	2013	2014	2015	After 2015
Software	501	165	(500)	(215)	(3)
Buildings	244	(33)	(33)	(32)	(54)
Switching equipment	9,900	1,462	(4,374)	(3,260)	(3,858)
Radio equipment	2,866	1,478	(668)	(1,885)	(1,473)
Other telecommunications equipment	169	(227)	(98)	(37)	(9)
Other technical equipment and machinery	461	(55)	(97)	(67)	(86)
Other (motor vehicles, office equipment, personal computers)	761	(329)	(68)	(134)	(109)

Customer relationships

The Company maintains record of customer relationships obtained during the acquisition of control of T-Mobile and recognized at the merger (Notes 1, 13) 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.

Customer retention period

The Company accrues activation; non-refundable up-front fees in cases when the delivery of products or rendering of services does not present a separate earnings process and the activation fees are not offset by a delivered product or rendered services. An accrual is made over the expected period of the customer relationship. The estimated customer relationship period is reassessed at each financial year-end. In 2012 the reassessment led to the shortening of the period in range between 1 – 4 years and to the following financial increase or (decrease):

thousands of EUR	2012	2013	2014	2015	After 2015
Revenue	2,494	(59)	(425)	(871)	(1,139)
Other operating costs	2,378	(185)	(551)	(535)	(1,107)
Profit before tax	116	126	126	(336)	(32)

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 14.

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 at 31 December 2012. 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 29, the Company is a participant in several lawsuits and regulatory proceedings. When considering the recognition of a provision, management judges the probability of future outflows of economic resources and its ability to reliably estimate such future outflows. If these recognition criteria are met a provision is recorded in the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Such judgments and estimates are continually reassessed taking into consideration the developments of the legal cases and proceedings and opinion of lawyers and other subject matter experts involved in resolution of the cases and proceedings. The factors considered for individual cases are described in Notes 25 and 29.

2.20 Comparatives
Certain balances included in comparative information have been reclassified in order to conform to the current year presentation. These adjustments, in accordance with IAS 1.38, have been made for the purpose of comparability of data, reported periods and include the following main changes:

a) Separate lines within Revenue (Note 4) were changed and the comparatives 2011 modified due to reassessment of internal management reporting structure.

b) Balances of outsourced services of EUR 11,752 thousand and postal services of EUR 4,934 thousand are disclosed in Installation services of EUR 1,478 thousand, Logistics of EUR 3,299 thousand, Printing and postage of EUR 5,680 thousand and Other costs of EUR 6,229 thousand (Note 7) in the 2011 comparatives. In the 2011 Note 7 these items were presented within Outsourced services and Postal services.

c) Internally developed intangible assets are disclosed in the separate column within Intangible assets (Note 13) in the 2011 comparatives. In the 2011 Note 14 these items were presented within column Software.

d) Separate lines within Inventories (Note 19) were changed and the comparatives 2011 modified due to reassessment of internal management reporting structure.

e) Balance of trade payables to DT AG of EUR 8,953 thousand is disclosed at separate line (Note 26) in the 2011 comparatives. In the 2011 Note 24 this item was presented within Trade payables to related parties.

f) Balances of commitments for the acquisition of intangible assets from DT AG of EUR 6,150 thousand and from third parties of EUR 8,453 thousand are disclosed at separate lines (Note 27) in the 2011 comparatives. In the 2011 Note 26 these items were presented within Commitments for the acquisition of intangible assets.

g) Balances of commitments for the purchase of services and inventory from DT AG of EUR 1,330 thousand, from the other related parties of EUR 15,341 thousand and from third parties of EUR 76,471 thousand are disclosed at separate lines (Note 27) in the 2011 comparatives. In the 2011 Note 26 these items were presented within Commitments for the purchase of services and inventory.

Reclassification of balances had no impact on balances in the statement of financial position as of 1 January 2011; therefore no opening statement of financial position as at 1 January 2011 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 2012

There are no IFRS or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have material impact on the Company.

- Amendment to IFRS 1 First-time adoption of International Financial Reporting Standards, effective for annual periods beginning on or after 1 July 2011

  The amendments encompass: i) provision of guidance on presentation of financial statements for a first-time adopter whose functional currency was subject to severe hyperinflation and ii) removal of fixed dates for first-time adopters by changing reference to a fixed date "1.1.2004" with "the date of transition to IFRSs".

  The standard and amendment is not relevant for the Company.

- Amendment to IFRS 7 Disclosures – Transfers of Financial Assets, 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 statement of financial position. 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.

The amendment is not relevant for the Company.

- Amendment to IAS 12 Income taxes, effective for annual periods beginning on or after 1 January 2012

  The amendment concerns measurement of deferred tax arising from assets measured at fair value in accordance with IAS 40 Investment Property and introduces an exemption to current principle when the measurement depends on whether the carrying amount of the asset is expected to be recovered through use or sale.

  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 2012 and which the Company has not early adopted

- Amendment to IFRS 1 First time adoption of International Financial Reporting Standards, effective for annual periods beginning on or after 1 January 2013

  The amendment addresses how the first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRS.

- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosures of Interests in Other Entities, effective for annual periods beginning on or after 1 January 2014 (for Europian Union companies)

  The amendments clarify the transition guidance in IFRS 10. The amendments also provide additional transition relief in IFRS 10, IFRS 11 and IFRS 12, limiting the requirement to provide adjusted comparative information to only preceding comparative period. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.
- Amendments within Annual improvements project 2009-2011, effective for annual periods beginning on or after 1 January 2013

  IFRS 1First-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

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

For all planned, but not yet determined, foreign currency denominated cash flows (uncommitted exposure) of the following 12 months (rolling 12 month approach) a hedging ratio of at least 50% is applied. The Company uses term deposits in foreign currencies to hedge these uncommitted exposures (Note 21).

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

In 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 matured on the date of the anticipated foreign currency cash expenditures. The Company's foreign currency risk relates mainly to the changes in USD foreign exchange rates, with immaterial risk related to financial assets and financial liabilities denominated in other foreign currencies.

The following table details the sensitivity of the Company's profit before tax and equity to a 10% increase/decrease in the 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		2012	2011
Profit before tax	Depreciation of EUR by 10%	403	(117)
	Appreciation of EUR by 10%	(330)	96
Equity	Depreciation of EUR by 10%	327	(95)
	Appreciation of EUR by 10%	(267)	78

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 provided loans to DT AG (Note 22).

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 2012, 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 20.

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, 22 and 23.

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

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, loans and trade and finance lease 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 April 2012 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 30,000 thousand. In total, Poštová banka, a.s. pledged 35,000,000 pieces of the state bond SK4120006503 with a nominal value of EUR 35,000 thousand. No other significant agreements reducing the maximum exposure to credit risk had been concluded at 31 December 2012.

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 2012	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	89,978	672	93	34	108	232
Finance lease receivable	4,509	-	-	-	-	-

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	181-365 days
Trade receivables	83,263	388	268	151	581	581
Finance lease receivable	6,063	-	-	-	-	-

No significant individually impaired trade receivables were included in the allowance for impairment losses in 2012 and 2011.

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 (including issued financial guarantee) based on contractual undiscounted payments:

thousands of EUR

At 31 December 2012	On demand	Less than 3 months	3 to 12 months	Over 1 year	Total
Trade payables	12,320	105,745	98	-	118,163
Financial guarantee commitment	-	250	-	250	500

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

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 2012.

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 24). The management of the Company manages capital measured in terms of shareholder's equity amounting to at 31 December 2012 EUR 1,612,678 thousand (2011: EUR 1,644,206 thousand).

4. REVENUE

thousands of EUR	2012	2011
Fixed network revenue	315,112	353,944
Mobile network revenue	397,786	432,294
Terminal equipment	34,162	24,400
System solutions / IT	22,143	14,772
Other	38,522	36,346
	807,725	**861,756**

5. STAFF COSTS

thousands of EUR	2012	2011
Wages and salaries	95,693	107,574
Social security contributions	23,448	26,815
	119,141	**134,389**

	2012	2011
Number of employees at period end	3,514	3,871

Number of employees does not include expatriates working for the Company at 31 December 2012: 2 (2011: 3).

6. OTHER OPERATING INCOME

thousands of EUR	2012	2011
Gain on disposal of property and equipment, net	1,071	996
Income from material sold, net	681	1,990
Loyalty program, net	-	2,167
Income from rental of premises	2,593	2,464
Reversal of impairment of property and equipment (Note 12)	553	290
Other	6,130	5,879
	11,028	**13,786**

7. OTHER OPERATING COSTS

thousands of EUR	2012	2011
Repairs and maintenance	25,339	22,183
Installation services	3,114	1,478
Marketing costs	21,774	23,538
Energy	17,871	16,509
Printing and postage	4,915	5,680
Logistics	3,301	3,299
Rentals and leases	17,257	18,612
IT services	8,492	12,584
Dealer commisions	22,751	20,746
Frequency and other fees to Telecommunications Office (Note 28)	3,507	7,353
Content fees	13,800	11,897
Consultancy	8,911	10,038
Bad debts expenses	4,542	2,908
Customer solutions	11,994	9,732
Fees paid to DT AG	4,682	4,658
Other	16,804	27,060
Own work capitalized	(15,292)	(12,994)
	173,762	**185,281**

8. FINANCIAL INCOME

thousands of EUR	2012	2011
Dividends from subsidiaries (Note 28)	603	1,020
Interest on short-term deposits and current bank accounts	1,103	1,726
Interest on loans (Note 28)	1,806	2,777
Interest on held-to-maturity investments	1,016	1,352
Interest from finance lease	162	121
Other	827	830
	5,517	**7,826**

9. FINANCIAL EXPENSE

thousands of EUR	2012	2011
Impairment of investments in subsidiaries (Note 15)	-	2,500
Impairment of held-to-maturity investments	-	199
Change in fair value of earn-out payable (Note 26)	-	60
Employee benefits - interest cost	393	377
Foreign exchange losses, net	87	173
Net loss on financial instruments held for trading	-	53
Interest cost on restoration obligations	220	182
Bank charges and other financial expense	36	65
	736	**3,609**

10. TAXATION

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

thousands of EUR	2012	2011
Current tax expense	35,000	41,210
Deferred tax expense / (income)	12,772	(12,022)
Other income tax	2,118	-
Income tax expense reported in the income statement	**49,890**	**29,188**

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	2012	2011
Profit before income tax	112,108	143,121
Income tax calculated at the statutory rate of 19% (2011: 19%)	21,301	27,193
Effect of income not taxable and expenses not tax deductible:		
Dividends	(115)	(194)
(Release) / creation of legal and regulatory provisions	(195)	67
Other tax non-deductible items, net	637	2,024
Tax charge in respect of prior years	152	98
Other income tax	2,118	-
Effect of change in tax rate	25,992	-
Income tax at the effective tax rate of 45% (2011: 20%)	**49,890**	**29,188**

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

thousands of EUR	1 January 2012	Through income statement	Through other com-prehensive income	31 December 2012
Difference between carrying and tax value of fixed assets	(146,793)	(13,363)	-	(160,156)
Allowance for held-to-maturity investments	1,960	413	-	2,373
Staff cost accruals	2,132	(1,244)	-	888
Allowance for bad debts	2,484	89	-	2,573
Termination benefits	436	208	-	644
Other	2,542	1,125	373	4,040
Net deferred tax liability	**(137,239)**	**(12,772)**	**373**	**(149,638)**

thousands of EUR	1 January 2011	Through income statement	Through other com-prehensive 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)**

thousands of EUR	2012	2011
Deferred tax asset to be settled within 12 months	8,636	7,914
Deferred tax asset to be settled after more than 12 months	3,365	2,415
Deferred tax liability to be settled within 12 months	(969)	(144)
Deferred tax liability to be settled after more than 12 months	(160,670)	(147,424)
Net deferred tax liability	**(149,638)**	**(137,239)**

11. ASSETS HELD FOR SALE

	Land, buildings and related equipment	
thousands of EUR	2012	2011
At 1 January	-	1,134
Net transfer to property and equipment (Note 12)	-	(978)
Assets sold	-	(156)
At 31 December	**-**	**-**

During 2011 the Company transferred 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.

12. PROPERTY AND EQUIPMENT

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 2012							
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**
Additions	392	9,909	9,878	2,776	12,691	35,378	71,024
Depreciation charge	(5,042)	(32,303)	(53,614)	(32,011)	(32,693)	-	(155,663)
Impairment charge	(524)	-	(4)	-	(375)	-	(903)
Reversal of impairment	80	-	8	-	89	376	553
Disposals	(127)	(5)	(51)	(7)	(256)	(104)	(550)
Transfers	759	1,224	(12,851)	29,174	9,149	(27,455)	-
At 31 December 2012							
Cost	182,529	987,141	1,145,742	363,931	346,312	64,629	3,090,284
Depreciation	(79,713)	(475,550)	(1,059,072)	(309,449)	(248,948)	(644)	(2,173,376)
Net book value	**102,816**	**511,591**	**86,670**	**54,482**	**97,364**	**63,985**	**916,908**

Property and equipment, excluding motor vehicles, is insured to a limit of EUR 25,000 thousand (2011: EUR 25,000 thousand). Each motor vehicle is insured to a limit of EUR 5,000 thousand (2011: EUR 2,500 thousand) for damage on health and expenses related to death and EUR 1,000 thousand (2011: EUR 664 thousand) for damage caused by destroyed, seized or lost items, lost profits.

The impairment charge relates mainly to the property and equipment which the Company intends to sell.

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 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**

13. INTANGIBLE ASSETS

thousands of EUR	Software	Licenses	Internally developed intangible assets	Goodwill	Customer contracts	Intangibles under construction	Total
At 1 January 2012							
Cost	424,906	133,379	3,437	73,313	406,622	32,223	1,073,880
Amortization	(383,765)	(55,322)	(633)	-	(249,703)	-	(689,423)
Net book value	**41,141**	**78,057**	**2,804**	**73,313**	**156,919**	**32,223**	**384,457**
Additions	15,996	1,838	40	-	-	14,131	32,005
Amortization charge	(34,134)	(7,140)	(273)	-	(35,672)	-	(77,219)
Disposals	(133)	-	-	-	-	(34)	(167)
Transfers	18,819	-	9	-	-	(18,828)	-
At 31 December 2012							
Cost	458,700	135,309	3,486	73,313	406,622	27,492	1,104,922
Amortization	(417,011)	(62,554)	(906)	-	(285,375)	-	(765,846)
Net book value	**41,689**	**72,755**	**2,580**	**73,313**	**121,247**	**27,492**	**339,076**

In August 2011 the Telecommunications 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 at 31 December 2012 is EUR 41,000 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 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 at 31 December 2012 and remaining useful lives are: EUR 95,974 thousand and 5 years for post-paid business customers, EUR 20,888 thousand and 1 year for post-paid residential customers, EUR 4,385 thousand and 3 years for DNS customers.

thousands of EUR	Software	Licenses	Internally developed intangible assets	Goodwill	Customer contracts	Intangibles under construction	Total
At 1 January 2011							
Cost	398,182	85,612	3,264	73,313	411,329	32,746	1,004,446
Amortization	(358,764)	(49,026)	(359)	-	(218,738)	(218)	(627,105)
Net book value	**39,418**	**36,586**	**2,905**	**73,313**	**192,591**	**32,528**	**377,341**
Additions	11,990	47,767	168	-	-	19,995	79,920
Amortization charge	(30,579)	(6,296)	(274)	-	(35,672)	-	(72,821)
Transfers	20,312	-	5	-	-	(20,300)	17
At 31 December 2011							
Cost	424,906	133,379	3,437	73,313	406,622	32,223	1,073,880
Amortization	(383,765)	(55,322)	(633)	-	(249,703)	-	(689,423)
Net book value	**41,141**	**78,057**	**2,804**	**73,313**	**156,919**	**32,223**	**384,457**

14. IMPAIRMENT OF GOODWILL

thousands of EUR	2012	2011
Slovak Telekom	73,313	73,313
	73,313	**73,313**

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. Since 2011 it is tested for impairment at the level of cash-generating unit Slovak Telekom. 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 (2011: 2%) and a discount rate of 6.94% (2011: 6.99%). 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

15. INVESTMENTS IN SUBSIDIARIES

At 31 December 2012 the Company held the following investments in subsidiaries:

thousands of EUR Name and Registered office	Activity	Cost of investment 2012	Cost of investment 2011	Profit 2012	Profit 2011	Net assets 2012	Net assets 2011
PosAm, spol. s r.o. ("PosAm") Odborárska 21, 831 02 Bratislava	IT services, applications and business solutions	12,968	12,968	2,444	2,366	8,501	7,240
Zoznam, s.r.o. ("Zoznam") Viedenská cesta 3-7, 851 01 Bratislava	Internet portal	2,346	2,346	343	123	2,114	1,771
Zoznam Mobile, s.r.o. ("Zoznam Mobile") Viedenská cesta 3-7, 851 01 Bratislava	Mobile content provider	1,410	1,410	15	60	383	368
Telekom Sec, s.r.o. ("Telekom Sec") Kukučínova 52, 831 03 Bratislava	Security services	7	7	(3)	(3)	-	3
		16,731	**16,731**				

Financial data for subsidiaries are based on their separate financial statements. At the date of authorization of these separate financial statements for issue, the audited financial statements of PosAm and Zoznam for the year ended 31 December 2012 were not available. The table is prepared based on their preliminary non-audited financial statements.

All subsidiaries are incorporated in the Slovak Republic and, except for PosAm, are wholly owned by the Company. The Company acquired 51% of the share capital and voting rights in PosAm. Shares in the subsidiaries are not traded on a public market. In 2012 and 2011 cost of investment in Zoznam and Zoznam Mobile is net of impairment of EUR 1,562 thousand and EUR 938 thousand respectively (Note 9), as the carrying value of investment exceeded its recoverable amount calculated as a present value of subsidiaries' future cash flows.

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.

16. TRADE AND OTHER RECEIVABLES

thousands of EUR	2012	2011
Non-current		
Trade receivables	5,985	-
Finance lease receivable (Note 17)	2,907	4,509
	8,892	**4,509**
Current		
Trade receivables from third parties	93,581	95,155
Trade receivables from subsidiaries (Note 28)	31	57
Trade receivables from DT AG (Note 28)	2,196	591
Trade receivables from other related parties (Note 28)	5,092	4,179
Other receivables from third parties	2,473	1,765
Other receivables from subsidiaries (Note 28)	-	129
Other receivables from DT AG (Note 28)	-	1,048
Finance lease receivable (Note 17)	1,602	1,554
	104,975	**104,478**

Trade receivables are net of an allowance of EUR 22,563 thousand (2011: EUR 22,316 thousand).

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

thousands of EUR	2012	2011
At 1 January	22,316	26,969
Charge for the year	12,421	6,169
Utilised	(4,633)	(9,405)
Reversed	(7,541)	(1,417)
At 31 December	**22,563**	**22,316**

17. 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	2012	2011
Gross investment in the lease		
Not later than 1 year	1,716	1,716
Later than 1 year and not later than 5 years	2,987	4,703
Unearned finance income	(194)	(356)
Present value of minimum lease payments	**4,509**	**6,063**

v tis. EUR	2012	2011
Present value of minimum lease payments		
Not later than 1 year (Note 16)	1,602	1,554
Later than 1 year and not later than 5 years (Note 16)	2,907	4,509
	4,509	**6,063**

18. PREPAID EXPENSES AND OTHER ASSETS

thousands of EUR	2012	2011
Non-current		
Easement	9,801	9,931
Deferred customer acquisition fees	1,885	5,067
Other	2,014	2,849
	13,700	**17,847**
Current		
Deferred customer acquisition fees	3,202	3,863
Other	3,234	2,670
	6,436	**6,533**

19. INVENTORIES

thousands of EUR	2012	2011
Materials	2,313	2,982
Goods	11,518	8,210
	13,831	**11,192**

Inventories are net of an allowance of EUR 2,411 thousand (2011: EUR 2,646 thousand). The write-down of inventories in amount of EUR 396 thousand (2011: write-down reversal EUR 541 thousand) was recognized in cost of material and equipment.

20. HELD-TO-MATURITY INVESTMENTS

thousands of EUR	2012	2011
State bonds	41,227	54,866
State treasury bill	29,979	24,738
Bank bond	3,120	3,120
	74,326	**82,724**

The state bonds and state treasury bill were issued by Ministry of Finance of Slovak Republic and have short term maturity of up to 1 year. The Company has the ability and intends to hold these investments till maturity.

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 2012 and equity at 31 December 2012 would increase/decrease by EUR 50 thousand/ EUR 66 thousand (2011: EUR 127 thousand/EUR 170 thousand).

21. TERM DEPOSITS OVER 3 MONTHS

thousands of EUR	2012	2011
Term deposits over 3 months	105,961	-
	105,961	**-**

Term deposits over 3 months consist of short term bank deposits with original maturity from 4 to 12 months. Credit quality of deposits at banks is as follows: rating A2: EUR 105,961 thousand.

22. LOANS

thousands of EUR	2012	2011
Loans to Deutsche Telekom AG (Note 28)	-	190,000
	-	**190,000**

The loans granted to Deutsche Telekom AG are not secured. Deutsche Telekom AG has rating Baa1.

23. CASH AND CASH EQUIVALENTS

thousands of EUR	2012	2011
Cash and cash equivalents	365,592	172,414
	365,592	**172,414**

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 A2: EUR 94,652 thousand, rating A3: EUR 195,675 thousand, rating Baa1: EUR 73,891 thousand, rating Baa2: EUR 2 thousand and rating Baa3: EUR 957 thousand.

24. 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 2012, Slovak Telekom had authorized and issued 26,027,500 ordinary shares (2011: 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.

The structure of shareholders of the Company at 31 December 2012:

Shareholder' name	Number of shares acquired	Value of acquired shares in EUR	Acquired share	Acquired voting rights
Deutsche Telekom AG	13,274,025	440,697,630	51%	51%
Ministry of the Economy of the Slovak Republic	8,849,350	293,798,420	34%	34%
National Property Fund of the Slovak Republic	3,904,125	129,616,950	15%	15%
	26,027,500	**864,113,000**		

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 (Note 1).

Financial statements of the Company for the year ended 31 December 2011 were authorized for issue on behalf of the Board of Directors of the Company on 15 March 2012.

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 30 April 2012, 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 2011 profit being partially declared for dividends and partially retained.

In 2012 Slovak Telekom declared and paid a dividend of EUR 3.53 per share (2011: EUR 4.99 per share). On the basis of this proposed appropriation, total dividends of EUR 92,000 thousand (2011: EUR 130,000 thousand) were paid in May 2012.

Approval of the 2012 profit distribution will take place at the Annual General Meeting scheduled for 29 April 2013.

25. PROVISIONS

thousands of EUR	Legal and regulatory claims	Asset retirement obligation	Termination benefits	Employee benefits	Other	Total
At 1 January 2012	2,113	7,983	2,295	737	2,198	15,326
Arising during the year	102	57	3,176	3,758	1,374	8,467
Reversals	(568)	(98)	-	(1,210)	(341)	(2,217)
Utilised	(560)	-	(2,672)	(45)	(705)	(3,982)
Transfer to current liabilities	-	-	-	-	(661)	(661)
Interest impact	-	220	-	375	18	613
At 31 December 2012	**1,087**	**8,162**	**2,799**	**3,615**	**1,883**	**17,546**
Non-current	-	8,162	-	3,615	896	12,673
Current	1,087	-	2,799	-	987	4,873
	1,087	**8,162**	**2,799**	**3,615**	**1,883**	**17,546**

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 2012. For contingent liabilities refer to Note 29.

Asset retirement obligation

The Company is subject to obligations for dismantlement, removal and restoration of assets associated with its cell site operating leases (Note 2.19). Cell site lease agreements may contain clauses requiring restoration of the leased site at the end of the lease term, creating an asset retirement obligation.

Termination benefits

The restructuring of the Company's operations resulted in headcount reduction of 374 employees in 2012. The Company expects a further headcount reduction of 251 employees in 2013 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 authorized 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. In 2012 the Company recognized an expense resulting from termination benefits in amount of EUR 6,047 thousand (2011: EUR 9,459 thousand) in staff costs.

Retirement and jubilee benefits

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

thousands of EUR	Retirement benefits not recognized	Retirement benefits recognized	Jubilee	Total
Present value of the defined benefit obligation				
At 1 January 2012	6,470	528	209	7,207
Interest cost	-	364	11	375
Amortized past service cost	(1,111)	1,111	-	-
Current service cost	-	455	19	474
Benefits paid	-	(27)	(18)	(45)
Actuarial loss	-	2,131	42	2,173
Curtailment gain	-	(1,210)	-	(1,210)
At 31 December 2012	**5,359**	**3,352**	**263**	**8,974**
Past service cost not recognized in the statement of financial position	(5,359)	-	-	(5,359)
Provision recognized in the statement of financial position at 31 December 2012	**-**	**3,352**	**263**	**3,615**

There were no special events causing any new past service cost during 2012. The curtailment gain in amount of EUR 1,210 thousand resulted from a reduction in the number of participants covered by the retirement and jubilee benefit plans.

Principal actuarial assumptions used in determining the defined benefit obligation and the curtailment effect in 2012 include the discount rate of 3.2%. The expected expense for 2012 has been determined based on the discount rate as at the beginning of the accounting period of 5.21%. Average retirement age is 62 years. The expected growth of nominal wages over the long term is 2.9% with minor adjustments for the first four years.

Cumulative amount of actuarial gains and losses net of related deferred tax recognized in Other comprehensive income amounted to EUR 622 thousand at 31 December 2012.

Amounts for the current and previous four periods are as follows:

thousands of EUR	2012	2011	2010	2009	2008
Present value of defined benefit obligation recognized	3,615	737	2,637	1,358	1,636
Actuarial gains and (losses) recognized in Other comprehensive income	(2,131)	3,299	(616)	510	(110)

26. TRADE AND OTHER PAYABLES AND DEFERRED INCOME

thousands of EUR	2012	2011
Non-current		
Deferred activation fees	2,955	5,093
Other deferred income	1,371	850
	4,326	**5,943**
Current		
Trade payables to third parties	100,679	86,487
Trade payables to subsidiaries (Note 28)	5,081	6,339
Trade payables to DT AG (Note 28)	8,105	8,953
Trade payables to other related parties (Note 28)	4,298	2,517
Amounts due to employees	16,137	19,817
Contingent consideration (earn-out)	-	2,438
Other payables to third parties	2,608	2,191
Other payables to other related parties (Note 28)	118	56
Fixed network prepaid services	21,991	22,944
Mobile network prepaid services	8,678	9,609
Deferred activation fees	3,046	3,833
Tax liabilities (other than income tax)	9,828	6,572
Other	5,663	2,921
	186,232	**174,677**

Contingent consideration (earn-out) for the acquisition of PosAm was paid in 2012 to the former owner of PosAm.

Amounts due to employees include social fund liabilities:

thousands of EUR	2012	2011
At 1 January	198	111
Additions	1,661	1,740
Utilisation	(1,559)	(1,653)
At 31 December	**300**	**198**

27. COMMITMENTS

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

thousands of EUR	2012	2011
Acquisition of property and equipment from third parties	10,717	8,690
Acquisition of property and equipment from subsidiaries (Note 28)	178	-
Acquisition of intangible assets from third parties	1,311	8,453
Acquisition of intangible assets from subsidiaries (Note 28)	25	-
Acquisition of intangible assets from DT AG (Note 28)	6,150	6,150
Acquisition of intangible assets from other related parties (Note 28)	7,482	-
Purchase of services and inventory from third parties	60,871	76,471
Purchase of services and inventory from subsidiaries (Note 28)	164	-
Purchase of services and inventory from DT AG (Note 28)	29	1,330
Purchase of services and inventory from other related parties (Note 28)	13,525	15,341
Guarantee to subsidiary (Note 28)	500	-
	100,952	**116,435**

In December 2012 the Company provided financial guarantee to its subsidiary PosAm to a maximum amount of EUR 639 thousand. The guarantee can be called on and a payment can be required to be made to reimburse the holder IBM Slovensko, s.r.o for a loss it incurs if PosAm fails to make a payment when due in accordance with the terms of the contract between PosAm and IBM Slovensko, s.r.o. Outstanding liability of PosAm and outstanding Company's balance of the guarantee is EUR 500 thousand at 31 December 2012. The guarantee is recognized as a commitment, not a liability, based on conditions set in the Letter of guarantee. For maturity analysis see Note 3.

The future minimum operating lease payments were as follows:

thousands of EUR	2012	2011
Operating lease payments due within one year	9,780	5,281
Operating lease payments due between one and five years	11,527	5,243
Operating lease payments due after five years	5,952	111
	27,259	**10,635**

The Company has commitments under operating leases of EUR 20,531 thousand from rental of technology space, EUR 4,761 thousand from rental of shops and EUR 1,042 thousand from rental of administration premises.

28. RELATED PARTY TRANSACTIONS

	Receivables		Payables		Sales and income		Purchases		Commitments	
thousands of EUR	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
DT AG	2,196	191,639	8,105	8,953	5,720	5,459	6,536	10,328	6,179	7,480
Subsidiaries	31	186	5,081	6,339	1,167	1,642	6,738	11,434	867	-
Other entities in DT AG group	5,090	4,177	4,411	2,573	13,171	11,675	13,536	11,745	21,007	15,341
Other shareholders of the Company	2	2	5	-	58	51	14	1	-	-
	7,319	**196,004**	**17,602**	**17,865**	**20,116**	**18,827**	**26,824**	**33,508**	**28,053**	**22,821**

The Company conducts business with its subsidiaries (PosAm, Zoznam, Zoznam Mobile, Telekom Sec) as well as with its ultimate parent, Deutsche Telekom AG and its subsidiaries, associates and joint ventures. Related parties transactions were made on terms equivalent to those that prevail in arm's length transaction. 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 6,507 thousand (2011: EUR 9,062 thousand) from related parties.

The short-term loan granted by the Company to Deutsche Telekom AG was repaid in 2012 (2011: EUR 190,000 thousand). Interest related to the loan amounted to EUR 1,806 thousand (2011: EUR 2,777 thousand) (Notes 8, 22).

In April 2012 the General meeting of PosAm declared a dividend of EUR 603 thousand (2011: EUR 1,020 thousand), which was paid in 2012. There was no dividend declared by other subsidiaries in 2012 and 2011 (Note 8).

For related party commitments refer to Note 27.

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, 13). The Company also incurred expenses of EUR 3,507 thousand (2011: EUR 7,353 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 17), delivery of internet connectivity and other telecommunications services. The total value of the contract is approximately EUR 23,859 thousand. In 2012, the Company recognized revenue related to this contract of EUR 5,351 thousand (2011: 12,426 thousand).

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 2012, the Company recognized revenue related to this contract of EUR 8,940 thousand (2011: 8,673 thousand).

During 2012 the Company purchased electricity and electricity distribution services from the Slovak Government related entities for EUR 8,614 thousand (2011: EUR 8,537 thousand).

During 2012 the Company purchased postal and cash collection services for EUR 5,405 thousand (2011: EUR 5,524 thousand) and leased space for EUR 1,938 thousand (2011: EUR 2,043 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 2012 or 2011.

Compensation of key management personnel

The key management personnel, 21 in number (2011: 20) include members of the Executive Management Board, Board of Directors and Supervisory Board.

thousands of EUR	2012	2011
Short term employee benefits	2,180	2,495
Cash based incentive program payments	-	270
	2,180	**2,765**

thousands of EUR	2012	2011
Executive Management Board	2,078	2,666
Board of Directors	57	55
Supervisory Board	45	44
	2,180	**2,765**

29. CONTINGENCIES

Legal and regulatory cases

On 9 May 2012 the Company has received a Statement of Objections (SO) issued by the European Commission ("Commission"), addressed to DT AG as well. In the SO, the Commission preliminary accuses the Company of ongoing refusal to supply and margin squeeze for unbundled local loops and wholesale broadband access. The Commission alleges on a preliminary basis that the Company implemented a strategy designed to exclude competitors from retail broadband access markets in the Slovak Republic. If proven, the allegations against the Company could lead to a finding that is has infringed Article 102 of the Treaty on the Functioning of the Europena Union, as well as the imposition of a fine. On 6 September 2012 the Company sent the response to SO inclusive several Annexes, rebutting all Commission's accusations.
On 6 and 7 November 2012 the oral hearing took place. As of the date of these financial statements, Commission has not decided yet whether it will issue an infringement decision. If the Commission adopts an infringement decision, it will be appealable to the General Court of the European Union. The management believes that the Company brought strong and relevant arguments in its response to the SO and at the Oral Hearing which significantly undermine and rebut the Commisssion's allegations against the Company. Should the Commission decide to adopt an infringement decision, the fine will be calculated as a percentage from relevant turnover with a cap of 10% from total prior year turnover. If the Commission was to establish so-called parental liability, such cap would be calculated on the basis of the turnover of the DT group. The case is complex and there are

multiple factors impacting the outcome of the case that at this stage of the proceedings remain contested between the Commission, the Company and DT AG. The Commission did not indicate the level of fine at this stage of the proceedings. The fines imposed in the abuse of dominance cases brought against European telecommunication operators were considerably below the aforementioned cap. The Company's level of potential financial exposure would in great part depend on various factors including duration and gravity of the infringement, as well as the issue of parental liability and other factors that differ significantly between the cases. Hence, it is therefore not possible to draw meaningful conclusions from the prior decisions. DT AG and the Company will be jointly and severally liable to the Commission in relation to this case, if the Commission decides that the parental liability applies. Having considered all above mentioned and the legal letter received, it is not possible to establish a reliable estimate of the outcome at this stage of the proceedings. There has been no provision recorded in these financial statements with respect to the described case.

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. During 2012 the Regional Court made a decision on trial costs, when the Company is obliged to pay the plaintiff of EUR 3,652 thousand. The Company appealed to the Supreme Court against the decision on additional trial costs. Such appeal has a suspensive effect, i.e. the Company is not obliged to pay at least until the decision of the Supreme Court on the appeal.

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, the Company 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. Appeal of AMO was submitted to the Supreme Court on 26 September 2012. 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. On 26 March 2012, the Company was delivered a decision of AMO on closing the proceedings in this case. The decision is final.

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).

30. FINANCIAL ASSETS AND LIABILITIES

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	2012	2011	2012	2011
Financial assets				
Non-current				
Trade receivables (Note 16)	5,985	-	5,985	-
Finance lease receivable (Note 16)	2,907	4,509	2,907	4,509
Current				
Held-to-maturity investments (Note 20)	74,326	82,724	74,132	82,757
Term deposits over 3 months (Note 21)	105,961	-	105,961	-
Loans (Note 22)	-	190,000	-	190,000
Trade receivables (Note 16)	100,900	99,982	100,900	99,982
Finance lease receivable (Note 16)	1,602	1,554	1,602	1,554
Cash and cash equivalents (Note 23)	365,592	172,414	365,592	172,414
Financial liabilities				
Current				
Trade payables (Note 26)	118,163	104,296	118,163	104,296
Contingent consideration (earn-out) (Note 26)	-	2,438	-	2,438

The fair value of the held-to-maturity investments was established based on market values provided by banks who act as depositors of the securities.

The fair value of other financial assets and financial liabilities approximate their carrying amounts at the statement of financial position date.

31. AUDIT FEES

In 2012 the Company obtained from the audit company PricewaterhouseCoopers Slovensko, s.r.o. statutory audit services in amount of EUR 161 thousand (2011: EUR 136 thousand), other assurance services in amount of EUR 145 thousand (2011: EUR 120 thousand) and other services in amount of EUR 4 thousand (2011: EUR 24 thousand).

32. EVENTS AFTER THE REPORTING PERIOD

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 2012.

INDEPENDENT AUDITOR'S REPORT (ADDENDUM)

pwc

Report on Verifying Consistency of the Annual Report with the Financial Statements, as required by § 23 of Act No. 540/2007 Coll. (Addendum to the Auditor's Report)

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

We have audited the separate financial statements of Slovak Telekom, a.s. ("the Company") at 31 December 2012, on which we issued Auditor's Report on 14 March 2013 and on which we expressed an unqualified audit opinions as well as emphasis of mater as follows:

"Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company standing alone as at 31 December 2012, its financial performance, and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Emphasis of matter
Without qualifying our opinion, we draw attention to Note 29 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 consolidated financial statements. Our opinion is not qualified in respect of this matter."

We have also audited the consolidated financial statements of the Company and its subsidiaries (together "the Group") at 31 December 2012, on which we issued Auditor's Report on 14 March 2013 and on which we expressed an unqualified audit opinions as well as emphasis of mater as follows:

"Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, its financial performance, and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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."

In accordance with the Act No. 431/2002 Coll. on Accounting, as amended, we also verified whether accounting information included in the Company's annual report at 31 December 2012 is consistent with the audited financial statements referred to above.

Management's Responsibility for the Annual Report

The Company's management is responsible for the preparation, accuracy, and completeness of the annual report in accordance with the Slovak Accounting Act.

PricewaterhouseCoopers Slovensko, s.r.o., Námestie 1. mája 18, 815 32 Bratislava, Slovak Republic
T: +421 (0) 2 59350 111, F: +421 (0) 2 59350 222, www.pwc.com/sk

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

pwc

Auditor's Responsibility for Verifying Consistency of the Annual Report with the Financial Statements

Our responsibility is to express an opinion on whether the accounting information presented in the annual report is consistent, in all material respects, with the information in the Company's audited separate financial statements and in the Group's audited consolidated financial statements. We conducted the verification in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements, and plan and perform the verification to obtain reasonable assurance whether the annual report is free from accounting information that would significantly differ from the information stated in financial statements.

The scope of work includes performing procedures to verify that the accounting information presented in the annual report is consistent with the separate and the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the annual report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Group's preparation and fair presentation of the annual report in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls. We did not verify those data and information in the annual report that were not derived from the individual or the consolidated financial statements.

We believe that the verification performed provides sufficient and appropriate basis for our opinion.

Opinion

In our opinion, the accounting information presented in the annual report prepared for the year ended on 31 December 2012 is consistent, in all material respects, with financial statements referred to above.

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

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

Ing. Štefan Čupil
UDVA licence No. 1088

Bratislava, 18 April 2013

Our report has been prepared in Slovak and in English 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.