# ANNUAL REPORT 2017

SLOVAK TELEKOM

# CONTENT


# 01 AN INTRODUCTION TO THE SLOVAK TELEKOM GROUP

# FOREWORD

Dear ladies and gentlemen,

Yet another successful year has passed in terms of the Group's financial results – a year when we managed to keep our revenues at a good level and, moreover, increased our profitability – with our EBITDA operating profit having risen by more than 4%.

In 2017, our Group focused on four areas: innovation, the best connectivity, the customer experience and the best TV. In each of the respective areas, we provided our customers with a lot of innovations that we desire to build upon in the future.

In terms of the aforementioned innovation, we introduced a new family service – the Magenta SmartHome - another step in the use of our excellent network with the same potential as digital TV from some 10 years ago: Magenta SmartHome has the potential to become part of a multitude of households. In addition to providing a wide range of devices to help customers deliver greater security through various sensors and control power consumption, we have also chosen an important step in making the portfolio available: we have spread the high entry fees into monthly rates, the likes of which customers are used to when paying for mobile phones. We believe this innovation can be tested by interested parties from several parts of Slovakia, as confirmed by the first months of sales.

We continue to extend the best connectivity, as well as our networks. With the 4G network, we managed to reach 89% of Slovakia's population and we focused more on capacity and speed. Several cities are covered by LTE-A networks of up to 225 and 300 Mbps. We additionally invested heavily in fixed networks, VDSL and optics, and fulfilled our ambition to cover more and more households with 30 Mbps networks.

We also expanded the customer experience to include a new service born out of technological possibilities. In the event of a fixed network failure (for example, floods or outages), customers can use the internet or watch TV over mobile networks. What we refer to as service substitution fulfils the promise of a convergent operator, and excellent 4G coverage at high speeds is also suitable for more demanding services.

The fourth area is digital television, where the number of Group customers reached a new milestone of 592,000, having grown by 10 percent last year. We also upgraded our Magio GO (the mobile version of Magio TV) and added the Magio GO TV Box for watching TV, at cottage retreats, for instance.

Finally, we would like to draw attention to the area of social responsibility. In addition to long-term support, we decided to incorporate inclusive care features to suppress prejudices in interpersonal communication in our Communication Standards. Our call centre agents are gradually being trained to better identify barriers and specific cases such as disabled customers. Through this approach, we endeavour to match customer requirements as best as possible and raise the overall level of communication.

Facilitating communication is our long-term role when deploying technology, modern services, and contacting the customer. Last year we moved forward and we believe that you will appreciate our efforts in the future.

Ing. Miroslav Majoroš
Chairman of the Board of Directors

Ing. Milan Vašina
Chief Executive Officer

# 2017 MILESTONES

## JANUARY

**Magio digital TV celebrates 10 years on the market:** In its first decade, Magio has drawn hundreds of thousands of customers who have in total watched over 2.5 billion hours of TV content.

## FEBRUARY

**Telekom presents a brand new product family:** With Magenta SmartHome, every customer can receive all the necessary equipment to increase the safety and comfort of their home without the need for an initial investment - from intelligent light bulbs through to smoke sensors.

## APRIL

**Telekom launches commercial VoLTE operation:** VoLTE technology facilitates calls through the most modern 4G network. Calls are not made through the voice portion of the network, but through the data channel. Calls are connected almost instantly, high sound quality is provided and the service does not restrict connected data connections.

## JUNE

**Kohútik Ťuki and the children's channel of the same name celebrate their second birthday:** This popular character has stolen the hearts of many children since its inception, having started her own fairy-tale series and launched her own book.

**The Magio Beach opens its gates for the eleventh time:** After a stunning sporting year, Magio Beach was turned into a summer centre of culture and relaxation. Under the acronym PKO - The culture and relaxation beach – Magio Beach brought visitors almost 20 concerts.

**Home-rate roaming:** Customers can use minutes, messages, or flat rate data in EU countries for the same rates as at home, and prepaid cards apply the same prices as in Slovakia.

## OCTOBER

**Slovak Telekom wins the Best in Test for Mobile Networks in Slovakia for the fifth time in three years:** The P3 test result confirmed the success of Slovak Telekom in achieving high values in large and small towns and confirmed its on-the-road quality.

## DECEMBER

**Telekom launched the pilot NB-IoT operation, the first Slovak network for the Internet of Things in the licensed band:** The technology enables a number of innovative solutions to be deployed in industry, Smart City projects, and in ordinary life.

## POSAM

**ParkDots installs and integrates into the Deutsche Telekom Smart City portfolio for the first time:** ParkDots, a new intelligent parking system from PosAm, enters the market with a pilot installation in Trnava. ParkDots makes parking easier for disabled people.

**PosAm enters the Connected car realm with the acquisition of Commander Services:** At the end of the year, an agreement was signed with Commander Services s.r.o. thereby becoming the 100% subsidiary of PosAm. The shared know-how allows the development of solutions in the Connected Car field.

## ZOZNAM AND ZOZNAM MOBILE

**Topky.sk ranked for the sixth time:** In the "Media" category in Google's "Trendiest Expressions of the Year" ranking.

**Zoznam.sk** celebrates its 20th birthday.

## DIGI SLOVAKIA

**The new DIGI GO application:** Provides a more interactive environment, simpler control and the ability to watch all Champions League games live.

**A record-breaking October on DIGI Sport:** More than 340 instances of live coverage aired in one month. With the exception of football, the largest portion of live coverage featured tennis matches.

# THE SLOVAK TELEKOM GROUP PROFILE

THE SLOVAK TELEKOM GROUP IS PART OF THE GLOBAL DEUTSCHE TELEKOM GROUP. THE UNMISTAKABLE GRAPHIC SYMBOL OF AFFILIATED COMPANIES IS THE MAGENTA "T", WHICH SIMULTANEOUSLY REPRESENTS THE INTERNATIONALLY VALID VALUES RECOGNISED BY THE EMPLOYEES OF ALL COMPANIES WITHIN THE GROUP.

## IDENTICAL VALUES FOR ALL DEUTSCHE TELEKOM GROUP COMPANIES:

- Customer satisfaction and enthusiasm are our driving force.
- We act responsibly and with respect.
- Together or separately - we are one.
- The best place for performance and growth.
- I am T - rely on me.

## GROUP STRUCTURE

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

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

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

## A DEUTSCHE TELEKOM MEMBER

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

# EXECUTIVE BODIES

## EXECUTIVE MANAGEMENT

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

**Stephan Eger**
**Chief Financial Officer and Deputy CEO**
Stephan Eger started his career at the Finance and Treasury division of Ford motors in Venezuela. He then worked at the Deutshe Bank headquarters in Frankfurt in the field of capital and asset management. After five years at Allianz from 2003 with pan-European, and global managerial responsibility, Stephen started working in 2005 with Lehman Brothers', tasked with managing German sales activities. In 2007 he joined the Deutsche Telekom Group as Head of Investor Relations. Over the past 8 years he has worked as the Deutsche Telekom business leader and reported directly to the CFO of Deutsche Telekom and in 2015, Stephan Eger was appointed to the position of Chief Financial Officer of T-Mobile Czech Republic. As of July 2016 Stephan Eger has also been the Slovak Telekom Executive Finance Director.

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

**Ing. Dušan Švalek**
**Chief Residential Segment Officer**
Dušan Švalek completed his education at the Bratislava University of Economics and then at the University of Navarra in the area of business economics and management. He began his career in the Benckiser and Johnson & Johnson, and later served six years at The Boston Consulting Group. In 2004 he joined T-Mobile Slovakia as Director of the Customer Services Division and from 2007 was the Executive Director of the Marketing Division and from July the 1st 2010 he held the position of Slovak Telekom Director of Marketing. As of October the 1st 2012 Dušan Švalek has been responsible for developing corporate strategies in marketing, sales and customer service for the mass market customer segment.

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

**Jiří Vacek**
**Chief Human Resources Officer (since 1. 2. 2018)**
Jiří Vacek has more than 20 years experience with HR management in the Czech Republic, Slovakia and abroad. After completing his studies, Jiří worked in the fields of human resources at Walter Czech Republic and Sagem Czech Republic. From 2001 to 2017 Jiří worked for Nestlé - initially as the Human Resources Director for the Czech and Slovak Republics and later as the Regional Director of HR in Switzerland and Italy. In 2017, Jiří Vacek worked for his own company - HR ONE.

**Ing. Peter Škodný**
**Chief ICT and Business Segment Officer (since 1. 5. 2018)**
Peter Škodný brings more than 25 years of experience from Accenture in Slovakia and other countries in Europe. He joined the company in 1991 and was active on several managerial positions. Since 1997 he has been responsible for Slovak market and since 2012 he has managed Hungarian unit as well. He had overall responsibility for Accenture operations on both markets across all business dimensions. In 2012 he took over the full responsibility for Accenture business in many markets in Deutsche Telekom. Since 2013 he was responsible also for the Accenture Danubia (Czech, Slovak, Hungarian, Croatian, Romanian and Bulgarian) Geo Unit.

**Uršula Kráľová, MBA**
**Chief Human Resources Officer (until 31. 1. 2018)**
In 1995 Uršula Kráľová graduated in Management at the Bratislava Comenius University. She studied at the Kellogg School of Management at North-western University in Chicago between 2000 and 2001, thus acquiring an MBA from1997 to 2000 she held the position of Associate Account Director and Account Director at Leo Burnett in Chicago and Hong Kong. From 2002 to 2012 Uršula worked at McKinsey & Co., first in New Jersey and from 2007 in Prague in the position of Associate Principal. She provided advisory services to large companies and corporations and helped with strategy, organisation and operations. Uršula has provided consultancy on demanding integration and transformation projects by large enterprises, which often include work in the field of human resources.

**Ing. Rudolf Urbánek**
**Chief ICT and Business Segment Officer (until 31. 12. 2017)**
Rudolf Urbánek joined the Deutsche Telekom Group in 2001. He held a number of senior positions in marketing and in sales at T-Mobile Slovakia and was responsible for the full integration of the sales network of Slovak Telekom and T-Mobile Slovakia before the companies merged in 2010. Rudolf Urbanek joined the T-Mobile Czech Republic in January 2011 as Managing Director for Sales and Customer Service. In the past five years he has been responsible for all B2B segment activities (VSE, SME and the corporate segment) and its mobile, fixed and ICT services. From B2B to B2B he was also personally responsible for all the commercial aspects of the integration process, T-Systems, GTS Czech and T-Mobile Czech Republic.

## THE BOARD OF DIRECTORS

**Chairman:**
- Ing. Miroslav Majoroš

**Vice-Chairs:**
- Guido Manfred Menzel (since 10. 2. 2017)
- Kerstin Günther  (until 10. 2. 2017)

**Members:**
- Darja Dodonova (since 10. 2. 2017)
- Franco Musone Crispino (until 10. 2. 2017)

## SUPERVISORY BOARD

**Chairman:**
- Dr. Hans-Peter Schultz

**Members:**
- Ing. Denisa Herdová
- Miriam Kvočková (until 22. 6. 2017)
- Ing. Drahoslav Letko
- Konstantina Bata
- Lamia Tewaag (until 20. 9. 2017)
- Dr. Henning Never

## AUDIT COMISSION

**Chairman:**
- Axel Kauhausen (since 1. 7. 2017)
- Klaus-Peter Kneilmann (until 30. 6. 2017)

**Members:**
- Ing. Denisa Herdová
- Daria Dodonova (since 23. 2. 2017)
- Franco Musone Crispino (until 22. 2. 2017)


# 02 BUSINESS ACTIVITY REPORT

# TECHNOLOGY, SERVICES AND PRODUCTS

OVER THE COURSE OF THE LAST YEAR SLOVAK TELEKOM'S FOCUS WAS ON FOUR KEY AREAS, AS PER THE NEW CORPORATE STRATEGY: INNOVATION, THE BEST CONNECTIVITY, THE CUSTOMER EXPERIENCE AND THE AMBITION OF HAVING THE BEST TELEVISION SERVICES ON THE MARKET.

As is Telekom's nature as a technology leader, it has the desire not only to have quality networks and technologies, but also to connect them to the end customer: the impact they have on customers, the devices they can use and a positive customer experience. The orientation on TV services is based on Telekom's constant effort to bring innovation to the fixed network within which it established itself after a decade as a part of triple play services alongside broadband internet and fixed line voice flat rates.

## INNOVATIONS: MAGENTA SMARTHOME AND VOLTE

Early in 2017, Telekom launched one of its biggest innovations in recent years, bringing a further means of using high-quality connectivity between Telekom and the customer – intelligent households through a service called **Magenta SmartHome**. Telekom brought the possibility of having everything necessary to increase home comfort and security (from intelligent light bulbs through to cameras to smoke sensors) for a monthly fee, thus making the service available to customers who had considered the initial investment relatively high.

Telekom managed to significantly expand the product portfolio during the course of the year. It was possible to connect as many as 32 types of devices to Magenta SmartHome by the end of the year.

## THE BEST CONNECTIVITY: GREATER EMPHASIS ON FIXED LINE NETWORKS

After a period of significant 4G network expansion and mobile network investment, Telekom simultaneously invested into fixed networks. In 2017, a multitude of finances and efforts were put into expanding and broadening fixed line coverage through VDSL and optics. Better quality connections were made available to further households.

By the end of 2017 **VDSL of at least 30 Mbps** was available for more than **618 000 households** and **optics for 484 000 households**.

Telekom did not lag behind in the area of the 4G networks either – an area where it expanded its population coverage to 89% of Slovakia standing 31.12.2017. Considerable attention was paid to the further coverage of the country, in particular major sections of railways and motorways. At the same time, a faster LTE-A configuration network was installed: Pezinok and Košice inhabitants have had 225 Mbps LTE-A since 2017, while 300 Mbps LTE-A was introduced in Poprad, Zvolen, Nové Zámky and Piešťany.

An important 4G network innovation was the introduction of VoLTE (Voice over LTE) technology. Up until the introduction of this feature, customers switched from 4G to 3G or 2G calls, while this technology allows customers to make and receive calls directly in the 4G network, resulting in higher quality and faster connection times. Telekom launched this technology in April and various Smartphone brands gradually started to support it.

The quality of Telekom mobile networks was once again confirmed in an independent P3 Communication test. Slovak Telekom was the first operator in Slovakia to have five successive Best In Test certificates in three years and won in both categories (Voice and Data Services). The focus on the customer network experience is furthermore supported not only by coverage, but additionally by the respective quality, speed and capacity in all regions.

In order to make good use of Telekom's high-quality mobile networks, the company expanded its product portfolio to feature dozens of discounted phones, tablets, and other devices over the course of the year. Several flagship manufacturers were premiered: the Samsung GALAXY S8, S8 + and Note8, the Sony Xperia XZ Premium, the Apple iPhone 8, 8 Plus and X, LG G6, the Lenovo Moto Z2 Play and the Huawei P10 and Mate 10.

Last but not least, customer options have been extended with new data volumes. The Happy fixed rate plan was expanded to feature more free data volume in March, and a new mobile data package including a bigger bundle and better mobile activation options was included in the prepaid Easy Card.

## THE CUSTOMER EXPERIENCE: FIXED LINES SUBSTITUTE MOBILE SERVICES

With the use of quality networks and innovations comes the customer experience. In 2017, Telekom created an interesting innovation in improving customer satisfaction: substituting fixed services during their unavailability.

In the event of a temporary Internet or television service malfunction, **all customers with fixed and mobile services are provided with a substitute solution free of charge**. If the situation is not resolved after being reported, in the event of a failure of a fixed Internet connection, Telekom will provide unlimited mobile internet for free to the customer for up to two days. Without restrictions, the customer can use the fast 4G network with speeds of up to 375 Mbps. From a mobile phone, a customer can create a Wi-Fi hotspot through which other devices can connect to the Internet while the fixed Internet is not functioning properly.

In the case of a TV Magio being down, the customer can use Magio GO mobile TV free of charge and unlimited mobile data for up to two days.

This innovation, which has been made use of by several thousand people since its launch, emphasises the synergies that have been achieved through the interconnection of mobile and fixed networks.

## TV SERVICES: STARTING THE SECOND DECADE WITH HIGH QUALITY CONTENT

Magio Digital TV celebrated its 10th anniversary at the end of 2016, and Telekom once again enriched itself at the start of the second decade.

2017 was exceptionally interesting from the television point of view: what was once again an exceptionally interesting year saw the Slovak television market shift into a unique position in the European context. The entire pay-TV market expanded rapidly and, from the point of view of Slovak Telekom, it was a year of rapid growth. **Telekom succeeded in acquiring several tens of thousands of new TV customers** and the entire Group exceeded a total of **592 000 digital TV customers** by the end of 2017.

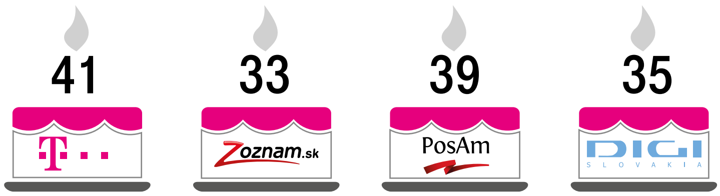
The group continued to concentrate primarily on maintaining its position as an operator that provides its customers with the best TV content. **Telekom provided more than 15 new channels to its customers with around about 20 of them being in HD quality**, whilst also working on improving **Magio GO mobile TV**. Changes were also made to both the web interface and the mobile app, which for example now allows simple gesture control. Quality has also improved, Magio GO now features the first HD channels, and others will follow.

# HUMAN RESOURCES AND EMPLOYEES

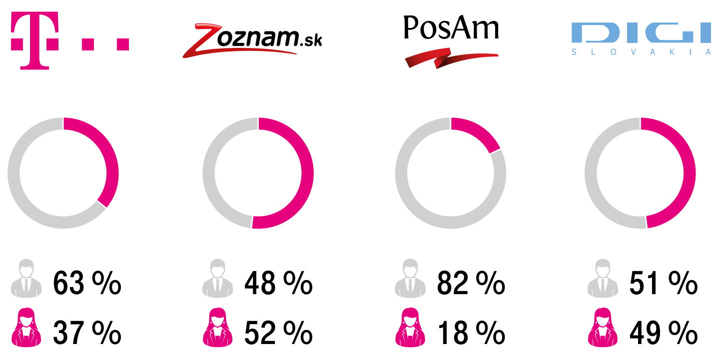
## THE GROUP IN NUMBERS

In 2017 Slovak Telekom employed **3 015** internal employees. In the stipulated period Zoznam and Zoznam Mobile employed a total of **60** internal employees, PosAm **290** and DIGI Slovakia **142**.

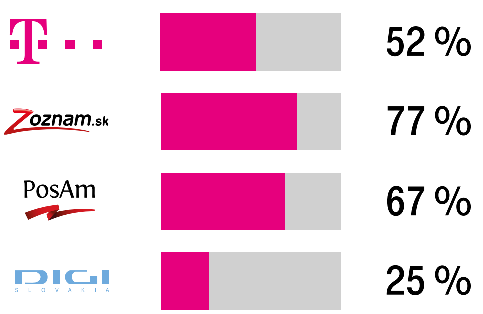
**The average age of employees in Slovak Telekom and its affiliated companies was the following in 2017**




**Representation of men and women in Slovak Telekom and its affiliated companies was the following in 2017**




**Percentage of university graduates in Slovak Telekom and its affiliated companies. The remaining employees completed secondary school with a final school leaving exam**



## HEALTH

The company organises regular Health Days in Bratislava and in regions. In 2017, approximately 1700 employees participated, receiving the opportunity to listen to interesting lectures, participate in workshops, consultations, exercises, massages, health tests and measurements. Field workers were equipped with field packs against ticks and insect bites this year. In addition, all participants were provided with both vitamin packages. Moreover, employees have the option of donating blood directly in the workplace – a possibility that the company has organised for several years.

## SHARED KNOWLEDGE

Within the company, employees share their know-how. In 2017, the **T-University** internal development platform was established and is available for free to all employees, providing various types of training, workshops and e-learning. For individual or team requirements tools such as coaching, mentoring, and socio-mapping are available. An integral part of the program is individual development in agreement with superiors.

The company also provides the Czech-Slovak **T-Tank** talent program and **W-lab**, designed for colleagues with potential and the interest in growth to achieve management positions. In 2017, online English lessons were made available. Virtual reality pilot training was another item of interest. These new approaches have a chance to become a natural part of the lives of employees and can bring even more flexibility in terms of studying from anywhere.

## STUDENT ACTIVITIES

The company continues to focus on generation Y through lectures at schools and events, as well as personal experience with employees, and furthermore supports several non-profit and student organisations. One of the supported projects is **Aj Ty v IT** (You too in IT), which aims to raise awareness of IT studies amongst females and stimulate their interest in learning. In 2017, Slovak Telecom traditionally participated in a career event for students known as **Business and Technology Night Of Chances**. In cooperation with the Nexteria organisation, a Nexteria Leadership Academy semester project was also prepared, providing the opportunity of working on real case studies.

In 2017, Telekom's own development activities for students continued. In November, the twelfth edition of the **T-Day** Conference for High school Students was held. In cooperation with the Youth Alliance (Aliancia pre mladých), the **Big Step** event was organised for the first time in Slovakia. The aim of the event was to show students the company backstage, to familiarise them with the themes that resonate in the company and to outline post-education opportunities. Telekom additionally welcomed several students through its **Trainee program** to find the most suitable adepts with the potential to cultivate and raise future colleagues.

# COMMUNICATION

Slovak Telekom has been one of the major media players for many years: in terms of the number of deliverables themselves - which can be calculated in the thousands – and in the wider context. It is the second aspect of the continuous development of technologies with diversity- especially in the field of IT innovation - that adds an attractive flavour to the telecommunication business that the media devotes due attention to.

In 2017 the field of media deliverables and advertising campaigns was once again driven by technological innovation and the expansion of the product and service portfolio. Right at the beginning of the year, Telekom introduced the intelligent **Magenta SmartHome** to the public at an original press conference, later accompanied by a diverse advertising campaign with a greater degree of authenticity.

Spring was predominantly driven by several "hardware" premieres in the form of new global products such as the **Samsung GALAXY S8**. Later months belonged to other manufacturers, and in the autumn, the eagerly-awaited new Apple iPhone 8 and iPhone X were accompanied by great publicity.

In addition to the various elements of communication and service mix topics regarding the availability of services and coverage, in the summer the theme of European regulation and changes in roaming rules gained a lot of coverage, as did the significant increase in **Magio TV** customers due to a variety of pay-TV market conditions.

During the summer months in addition to roaming - listener and reader attention was focused on cycling phenomenon **Peter Sagan**, in his third season with a magenta sub-tone. It is worth mentioning hundreds of deliverables from Bratislava's **Magio Beach**, which has been part of the summer program in the capital for 11 years.

The end of the year featured a traditionally rich **Christmas campaign**, which was very well supported by the news of Telekom defending its position in the Slovak mobile network quality test and obtaining a certificate **Best in Test** from **P3 Communications**.

In 2017, Slovak Telekom boded well with several campaigns for creativity and advertising efficiency. Telekom walked away with the Gold and Bronze Zlatý Klinec (Golden Nail) awards for non-traditional campaigns and events for its social network **“Phoneboarding”** campaign. The **Magenta SmartHome** campaign won the gold and silver awards for creativity, and it also defended its success in the field of efficiency, and walked away with a silver EFFIE award.

In 2017 Slovak Telekom presented its long-standing presence in support for the **Hearing-impaired**. In the fourth quarter, as an addition to the **"No Surrender to Prejudice"** campaign, Slovak Telekom added a new topic of inclusion, diversity and tollerence initiated not only by an internal campaign but also by an untraditional press conference.


# SOCIAL RESPONSIBILITY

Slovak Telekom has for many years been one of the entities that regularly contribute to shaping the environment through various social responsibility projects. Telekom represents a long-standing and stable pillar of the Slovak business environment and is committed to the communities in which it does business.

A key project in the area of corporate social responsibility and inclusion was the launch of the **Perceptive company** outreach project. With training, 30 front-line and back office department employees were trained during the year, impacting 700 customer service staff. Employees who come into primary contact with disadvantaged customer groups have developed hard and soft skills. Primarily the project focused on 3 areas:

1) training and leadership of colleagues from customer service towards perceiving the needs and barriers of customers from disadvantaged groups,
2) building an inclusive corporate culture - a campaign for all employees to combat prejudice, stereotypes, training and leadership of colleagues from customer service towards perceiving the needs and barriers of customers from disadvantaged groups,
3) partnership with Eduma, a non-profit organisation - from emotion to knowledge - institutional support and collaboration within the outreach framework.

The project's ambition is to continue the unremitting process of education and to integrate the system into the adaptive process of new employees as well as into of senior staff and all front line staff development education.

Amongst the systematic and long-standing activities that Slovak Telekom seeks to systematically change is support for the **Hearing impaired**, which is featured in a number of programs, **Mobile Teacher**.

Because of the very nature of the business, Slovak Telekom realises that targeted outreach and education are essential in order to eliminate the risks associated with corrupt behaviour. Therefore every year Slovak Telekom organises an **Anti-Corruption Day** for employees where discussions are held with third-sector leaders on the issues of prevention and rectification of corruption.

Every year Slovak Telekom helps to improve the environmental, social and employment spheres through employee grant programs for **"Helping the community"** through which they can target the support directly where they feel it is necessary at their own discretion.

## CODE OF ETHICS

The Code of ethics is a key document for the company regarding the prevention of unethical behaviour. **As of January 2018, Slovak Telekom has put into practice the revised Code of Ethics**. Through the Code of Ethics Telekom seeks to **engage business partners, suppliers and third parties**, for example in connection with the conclusion of a framework contracts and tenders etc.

The new Code of Conduct is implemented in all Deutsche Telekom Group companies. Colleagues from the Legal Department and Compliance and Internal Communications contributed to the Slovak version of the document.

# DIGI SLOVAKIA

## PRODUCTS AND SERVICES

Every year, DIGI Slovakia strives to bring more exclusive content at an unchanged price. In 2017, a total of 11 new TV channels were introduced - including FILM +, CS Film and Horror Film, the Nick Jr. localised fairy tale station, Cartoon Network and CS Mini, CNN, as well as documentary channels The Food Network, Fine Living, UP Network and The History Channel HD. The company has also replaced several SD channels with HD version.

**HD sports in the basic bundle**
The biggest change in the portfolio of DIGI Slovakia services was the complete abolition of the additional HD sports bundles Extra Sport HD" and Extra Sports HD +. As of September 2017, all HD sports TV programs from these bundles became part of the basic "Standard" and "Maxi" bundles, the price of which remained unchanged despite the respective content expansion.

The "Standard" and "Maxi" bundles once again feature all of the five exclusive DIGI Sport TV channels in HD, plus the attractive Eurosport 1 and 2 HD channels, Sport 1 and 2 HD and Nova Sport 1 and 2. DIGI created an unrivalled sports bundle featuring 11 top quality sports TV channels, both in the basic bundle and in HD.

**New cable and satellite bundles**
At the beginning of 2017, DIGI brought cable TV customers and officially marketed the MAXI package with 90 channels from €11.60 a month, which was previously only available through the satellite platform. A further 25 channels were added to the cable bundle.

A new HBO + GO bundle was added to the satellite TV offering early in 2017, linking premium film content to HBO's original productions.

**The new DIGI GO application: Simpler control and more content**
During the autumn of 2017, new versions of the DIGI GO mobile application were released which included a more interactive environment and more customer-oriented control. Mobile TV was expanded to include new sports TV channels such as Nova Sport 1 and Nova Sport 2 and the popular Golf Channel.

A new feature of the DIGI GO Champions League autumn phase was the chance to watch matches - and not just those that were broadcast by DIGI Sport in direct broadcasts.

**DIGI Sport TV channels**
In 2017 DIGI Sport TV on its 5 channels brought hundreds of direct broadcasts of the most prestigious football leagues such as the English Premier League, Spanish La Liga and the UEFA Champions League every month. The first two broadcast both on Slovakia and the Czech Republic, the third only in Slovakia. For the big football fans, the Scottish Premiership and the 2nd English division Sky Bet Championship were featured. The attractiveness was increased with the addition of DIGI's own presenters and special guests.

In 2017 DIGI Sport broadcast a great deal of tennis tournaments: ATP 500, ATP 1000, all WTA PREMIER TOUR tournaments and the Men's and Women's Masters.

In addition to football and tennis, audiences had the opportunity to enjoy Diamond League athletics, Euroleague Men's Basketball, Czech Ice Hockey Tipsport extraliga, and at the end of the year the oldest hockey tournament in the world – the Spengler Cup. DIGI Sport also brought cycling, Kickboxing, the FIM SPEED WAY GRAND PRIX and the Great Pardubice horse race events to name but a few.

**Online investment**
In October DIGI SLOVAKIA launched a digisport.sk portal that offers premium content from the TOP competition, instant information on live broadcasts, the best or most surprising match moments, and a comprehensive schedule of all five DIGI Sport TV channels. The schedule provides exclusive material and background information from football and the world of tennis and other sports. Thanks to its responsive design, the portal is appropriate for computers, tablets and mobiles. DIGI promises an increase in site traffic, trusted readers, and in particular conversions leading to purchase decisions.

In the last quarter of 2017 DIGI Slovakia invested time and effort into creating a new digislovakia.sk website. The website was launched in early 2018. In addition to the design and clarity of the site, the ordering system will be improved especially in order to make the process of ordering new or additional services more simple.

## SOCIAL RESPONSIBILITY

In 2017 DIGI Slovakia sponsored the Week of Beach Sports, the Peter Sagan Children's Tour, Unicef - Blue Button, ChessFest, Children's Stars, The BA MTB Marathon, Bike Fest, Cyclomarathon, the Beach Volleyball Cup, the Open Summer Cup, the Motorbike championship, Good Angels, Balls, not drugs, the Veľká Lomnica Business Golf Tour, Bystrina volleyball, the Pezinska baba races, the Badmington tour, Zebratour Bedminton, Star for Stars and the Tennis champions. DIGI Slovakia also supported the Slovan Bratislava Hockey Club in 2017.

# ZOZNAM AND ZOZNAM MOBILE

One of the most important events of 2017 was the **20th anniversary of Zoznam.sk.** As a further success, Zoznam ended up in the **top six** for the Topky.sk portal in the category "Media" for "Trendiest expressions of the year" by Google.

As part of its activities, in 2017 Zoznam **introduced mobile versions of several portals:** Topky.sk, Vyšetrenie.sk, Openiazoch.sk and Podkapotou.sk (Examination, Money and Under the hood) A redesign was implemented in line with current trends in web design with a strong emphasis on UX (the user experience), resulting in an innovative interface and intuitive user orientation on the site.

In 2017 **WebSlovník.sk** expanded its database and added additional translation dictionaries for visitors.

In 2017, Zoznam made the transition to secure HTTPS protocol to maximise the secure connection of site visitors to the server.

**For clients and advertisers**, Zoznam prepared several **new products**. The ad slot portfolio has been expanded with new formats for direct clients, including for programmatic buyers. To optimise revenue and make the most effective sale of programmatic advertising, Zoznam began to adjust the price floor on a daily (or hourly) basis, i.e. the minimum amount for which it is willing to sell the advertising space in an open auction. For the same reason, Zoznam also implemented header bidding technology that allows the highest bid for a specific ad impression from multiple ad networks to ensure a more efficient auction.

**The Kariera.sk** career portal and the **Karierainfo.sk** content magazine organisationally participated in a consultancy-educational project for the wide public called Kariéra(.sk) (Career) on the Magio Beach. This unique project was devoted to career development, better recruitment of job seekers and advice to potential entrepreneurs and was open to the public free of charge. The aim of the project was to provide employees with the opportunity to improve their self-expression in the communication part of the selection process. The expert guarantor of the event was renowned staff manager Josephine M. Swift, who provided free expert consultations, mock-up job interviews, and counselling. The project also provided inspirational lectures and workshops. "Career Wednesdays" with a weekly periodicity during the summer months were held in an informal setting on the Magio Beach in Bratislava. Also included was "Breakfast with Careers", organised by the Kariéra.sk throughout the year, providing inspirational lectures to HR staff by leading HR department staffers.

Kariéra.sk alongside the Kariérainfo.sk magazine provided media support for the "Coffee with a Career Advisor" activity organised by the Association for Career Advice and Career Development. On the occasion of the Lifelong Consultation Week, free career counselling was organised in selected cities for those interested who needed professional assistance with their career direction.

## SOCIAL RESPONSIBILITY

Zoznam, consistent with our corporate culture, has provided long-term and **continual support for third sector activities**, helping to meet socially beneficial goals. In 2017, the Zoznam provided media web support on its portfolio websites for:: The League against Cancer, Cervený nos (Red Nose) Clowndoctors, Úsmev ako dar (A smile as a Gift), Savio and Magna Deti v núdzi (Children in need), The Kvapka nádeje (Drop of Hope) Foundation, Plamienok, Moonlight camp, The Children’s Foundation NPO, the Vráťme deťom šport do Košíc (Let’s give sport back to children in Kosice), The Slovak Catholic Charity –and the Sport Town 2017 project – an event organised in Slovakia as part of the 2017 European Week of Sport.

The company continues to support the **Konšpirátori.sk** (Conspiritors) initiative through the membership of Martin Mác in the evaluation committee. Conspirators.sk provides advertisers with lists of untrustworthy and deceptive propaganda spreading websites where advertising is not recommended.

In 2017 Zoznam remained a member of the self-regulatory body - the **Advertising Board** - which is actively involved in the cultivation of advertising in the online environment.

# POSAM

In 2017, PosAm continued to fulfil its vision, the core of which is the shift from tailor-made IT solutions for customers in Slovakia to delivering unique scalable products for a wider region.

2017 was a breakthrough year in relation to the rapidly developing IoT market (internet of things). PosAm entered this promising market segment by acquiring Commander Services, the Slovak leader in corporate vehicle monitoring, as well as the first installation of ParkDots' – its own intelligent parking solution.

A crucial breakthrough also took place in creating user interfaces in application solutions. With a significant qualitative shift, PosAm made reserves in this area, making it a strong point.

PosAm's customer base and the structure of the services provided have been stable in recent years. The growing demands from the Ministry of Finance for more detailed structure and speed of state budget processing have been met. The volume of electronic communication in the DCOM project has increased. The transition to a new version of the Servio software solution used to support air traffic control in LPS Bratislava was handled well. The company has become a reliable partner of Pan-Net, a subsidiary of Deutsche Telekom, for its activities in Europe. New acquisitions in the insurance segment contributed to the total volume of performance.

PosAm significantly invested in future growth in 2017 by entering a new segment of the market - the Internet of Things, which is predicted to expand significantly.

## SOCIAL RESPONSIBILITY

In 2017 PosAm introduced the Dionysis Ilkovic Prize, www.cenadi.sk. The award was created as gratitude, tribute and encouragement towards people working in science education and their efforts which are above the standard call of duty and have thus far been overlooked. PosAm believes that popularising mathematics, physics, chemistry and informatics amongst young people, as well as developing their skills in these areas will make their natural career choices more akin to what makes Slovakia more competitive.

The award was initiated by PosAm and academic sector partners. PosAm CEO Marián Marek and Martin Plesch of the Slovak Academy of Sciences were the people behind this concept.

In the first year, 54 nominations were put forward, of which the jury selected three finalists and a winner - Jozef Smrek, who is a physics and mathematics teacher at the Pavel Horov Secondary School in Michalovce. The prize was awarded for development of extracurricular activities in physics.

The award met with a widely positive response in the media. The high viewing figures of the finalists' social media profiles confirmed the community's interest in the subject.

# 03 FINANCIAL STATEMENTS

Slovak Telekom, a.s.

# CONSOLIDATED FINANCIAL STATEMENTS

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

FOR THE YEAR ENDED 31 DECEMBER 2017

## CONTENTS

# INDEPENDENT AUDITOR'S REPORT

pwc

## Independent Auditor's Report

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

### Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Slovak Telekom, a.s. (the "Company") and its subsidiaries (together - the "Group") as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

**What we have audited**

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated income statement and consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

### Basis for opinion

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

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

**Independence**

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

### Emphasis of Matter

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

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

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

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## *Reporting on other information in the annual report*

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

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

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

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

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

- the information given in the annual report for the year ended 31 December 2017 is consistent with the consolidated financial statements; and
- the annual report has been prepared in accordance with the Accounting Act.

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

## *Management's responsibilities for the consolidated financial statements*

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

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

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

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

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

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

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

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

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

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

Mgr. Marián Mihaľo
UDVA licence No. 1187

Bratislava, 15 March 2018

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

# CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER

| thousands of EUR | Notes | 2017 | 2016 |
|---|---|---|---|
| **Revenue** | 4 | 747,837 | 765,984 |
| Staff costs | 5 | (129,807) | (127,745) |
| Material and equipment | | (87,640) | (97,388) |
| Depreciation, amortisation and impairment losses | 11, 12 | (186,971) | (181,750) |
| Interconnection and other fees to operators | | (54,673) | (72,443) |
| Other operating income | 6 | 11,649 | 14,408 |
| Other operating costs | 7 | (192,026) | (209,285) |
| **Operating profit** | | 108,369 | 91,781 |
| Financial income | 8 | 3,544 | 3,387 |
| Financial expense | 9 | (1,379) | (1,554) |
| **Net financial result** | | 2,165 | 1,833 |
| **Profit before tax** | | 110,534 | 93,614 |
| Income tax expense | 10 | (37,610) | (26,888) |
| **Profit for the year** | | 72,924 | 66,726 |

The consolidated financial statements on pages 27 to 68 were authorised for issue on behalf of the Board of Directors of the Group on 15 March 2018 and signed on their behalf by:

Ing. Miroslav Majoroš
Chairman of the Board of Directors

Darja A. Dodonova
Member of the Board of Directors

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

| thousands of EUR | Notes | 2017 | 2016 |
|---|---|---|---|
| **Profit for the year** | | 72,924 | 66,726 |
| **Other comprehensive income** | | | |
| Loss on remeasurement of available-for-sale investments | 17 | - | (9) |
| **Other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax** | | - | (9) |
| Loss on remeasurement of defined benefit plans | 22 | (533) | (1,177) |
| Deferred tax income | 10 | 112 | 228 |
| **Other comprehensive income not to be reclassified to profit or loss in subsequent periods, net of tax** | | (421) | (949) |
| **Other comprehensive income for the year, net of tax** | | (421) | (958) |
| **Total comprehensive income for the year, net of tax** | | 72,503 | 65,768 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## AS AT 31 DECEMBER

| thousands of EUR | Notes | 2017 | 2016 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property and equipment | 11 | 724,321 | 742,495 |
| Intangible assets | 12 | 326,635 | 351,677 |
| Deferred tax | 10 | 1,097 | 1,219 |
| Other receivables | 14 | 1,646 | 1,240 |
| Prepaid expenses and other assets | 15 | 13,685 | 13,226 |
| | | 1,067,384 | 1,109,857 |
| **Current assets** | | | |
| Inventories | 16 | 16,517 | 16,617 |
| Term deposits | 18 | 6,336 | 4,422 |
| Loans | 19 | 183,000 | 180,000 |
| Trade and other receivables | 14 | 111,063 | 112,615 |
| Prepaid expenses and other assets | 15 | 9,079 | 12,202 |
| Current income tax receivables | | 824 | 521 |
| Cash and cash equivalents | 20 | 77,325 | 56,182 |
| | | 404,144 | 382,559 |
| **TOTAL ASSETS** | | 1,471,528 | 1,492,416 |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' equity** | | | |
| Issued capital | 21 | 864,113 | 864,113 |
| Statutory reserve fund | 21 | 172,823 | 172,823 |
| Other | | (2,833) | (2,351) |
| Retained earnings and profit for the year | | 81,671 | 69,979 |
| | | 1,115,774 | 1,104,564 |
| **Non-current liabilities** | | | |
| Deferred tax | 10 | 86,059 | 95,140 |
| Provisions | 22 | 32,071 | 26,145 |
| Other payables | 23 | 4,707 | 7,118 |
| Other liabilities and deferred income | 24 | 5,589 | 3,380 |
| | | 128,426 | 131,783 |
| **Current liabilities** | | | |
| Provisions | 22 | 6,117 | 34,162 |
| Trade and other payables | 23 | 145,851 | 146,342 |
| Other liabilities and deferred income | 24 | 73,076 | 71,516 |
| Current income tax liabilities | | 2,284 | 4,049 |
| | | 227,328 | 256,069 |
| **Total liabilities** | | 355,754 | 387,852 |
| **TOTAL EQUITY AND LIABILITIES** | | 1,471,528 | 1,492,416 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER

| thousands of EUR | Notes | Issued capital | Statutory reserve fund | Other | Retained earnings | Total equity |
|---|---|---|---|---|---|---|
| **Year ended 31 December 2016** | | | | | | |
| At 1 January 2016 | | 864,113 | 172,823 | (1,400) | 72,996 | 1,108,532 |
| Profit for the year | | - | - | - | 66,726 | 66,726 |
| Other comprehensive income | | - | - | (958) | - | (958) |
| Total comprehensive income | | - | - | (958) | 66,726 | 65,768 |
| Transactions with shareholder | | | | | | |
| Other changes in equity | | - | - | 7 | - | 7 |
| Dividends | 21 | - | - | - | (69,743) | (69,743) |
| At 31 December 2016 | | 864,113 | 172,823 | (2,351) | 69,979 | 1,104,564 |
| **Year ended 31 December 2017** | | | | | | |
| At 1 January 2017 | | 864,113 | 172,823 | (2,351) | 69,979 | 1,104,564 |
| Profit for the year | | - | - | - | 72,924 | 72,924 |
| Other comprehensive income | | - | - | (421) | - | (421) |
| Total comprehensive income | | - | - | (421) | 72,924 | 72,503 |
| Transactions with shareholder | | | | | | |
| Other changes in equity | | - | - | (61) | - | (61) |
| Dividends | 21 | - | - | - | (61,232) | (61,232) |
| At 31 December 2017 | | 864,113 | 172,823 | (2,833) | 81,671 | 1,115,774 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER

| thousands of EUR | Notes | 2017 | 2016 |
|---|---|---|---|
| **Operating activities** | | | |
| **Profit for the year** | | 72,924 | 66,726 |
| Adjustments for: | | | |
| Depreciation, amortisation and impairment losses | 11, 12 | 186,971 | 181,750 |
| Interest income, net | | (874) | (868) |
| Income tax expense | 10 | 37,610 | 26,888 |
| Gain on disposal of property and equipment and intangible assets | 6 | (387) | (966) |
| Other non-cash items | | 4,862 | 2,216 |
| Movements in provisions | 22 | (27,505) | 23,616 |
| Changes in working capital | | | |
| Change in trade and other receivables | | (1,325) | (20,284) |
| Change in inventories | | (475) | (5,515) |
| Change in trade and other payables | | 7,261 | 11,186 |
| **Cash flows from operations** | | 279,062 | 284,749 |
| Income taxes paid | | (48,524) | (35,580) |
| **Net cash flows from operating activities** | | 230,538 | 249,169 |
| | | | |
| **Investing activities** | | | |
| Purchase of property and equipment and intangible assets | 11, 12 | (127,051) | (118,504) |
| Proceeds from disposal of property and equipment and intangible assets | | 1,662 | 5,473 |
| Proceeds from disposal of available-for-sale investments | 17 | - | 35,057 |
| Disbursement of loans | | (200,000) | (185,000) |
| Repayment of loans | | 197,000 | 50,000 |
| Acquisition of term deposits | | (9,074) | (4,262) |
| Termination of term deposits | | 6,469 | 31,430 |
| Interest received | | 176 | 1,328 |
| Other charges paid for investing activities | | (184) | - |
| **Net cash flows used in investing activities** | | (131,002) | (184,478) |
| | | | |
| **Financing activities** | | | |
| Dividends paid | 21 | (61,232) | (69,743) |
| Repayment of financial payables | 23 | (16,591) | (14,291) |
| Other charges paid for financing activities | | (570) | (915) |
| **Net cash used in financing activities** | | (78,393) | (84,949) |
| | | | |
| Net increase / (decrease) in cash and cash equivalents | | 21,143 | (20,258) |
| Cash and cash equivalents at 1 January | 20 | 56,182 | 76,440 |
| | | | |
| **Cash and cash equivalents at 31 December** | 20 | 77,325 | 56,182 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## INDEX TO THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

# 1. GENERAL INFORMATION

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

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

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

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

At 31 December 2017 the Company had the following fully consolidated direct subsidiaries:

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

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

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

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

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

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

**Members of the Statutory Boards at 31 December 2017**

## BOARD OF DIRECTORS

**Chairman:**
- Ing. Miroslav Majoroš

**Vice-chairman:**
- Kerstin Günther (until 10 February 2017)
- Guido Manfred Menzel (since 10 February 2017)

**Member:**
- Franco Musone Crispino (until 10 February 2017)
- Darja A. Dodonova (since 10 February 2017)

## SUPERVISORY BOARD

**Chairman:**
- Dr. Hans-Peter Schultz

**Members:**
- Ing. Denisa Herdová
- Miriam Kvočková (until 22 June 2017)
- Dr. Henning Never
- Ing. Drahoslav Letko
- Konstantina Bata
- Lamia Tewaag (until 20 September 2017)

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

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

# 2. ACCOUNTING POLICIES

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

## 2.1 Basis of preparation

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

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

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

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

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

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

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

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

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

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

Costs directly attributable to the acquisition are expensed.

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

## 2.2 Property and equipment

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

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

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included within other operating income or expense in the income statement in the period in which the asset is derecognised. Net disposal proceeds consist of both cash consideration and the fair value of non-cash consideration received.

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

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

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

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

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

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

## 2.3 Intangible assets

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

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

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

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

**Software and licences**

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

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

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

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

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

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

**Goodwill**

Goodwill arises on the acquisition of subsidiaries and represents an excess of consideration transferred over Group's interest in net fair value of the net identifiable assets acquired, liabilities and contingent liabilities of the acquiree and the fair value of non-controlling interest in the acquiree. Following initial recognition, goodwill is carried at cost less any accumulated impairment losses. Goodwill is not amortised but it is reviewed for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired (Note 13). Carrying value of goodwill is compared to its recoverable amount, which is the higher of value in use and fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed. Fair values less costs to sell of cash-generating units with allocated goodwill tested for impairment are in Level 3 of the fair value hierarchy.

### 2.4 Impairment of non-financial assets

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

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

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

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

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

Impairment is determined by assessing the recoverable amount of cash-generating unit to which the goodwill relates. For more details on impairment of goodwill refer to Note 13.

### 2.5 Inventories

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

Some terminal equipment, in particular phone sets, is often sold for less than cost in connection with promotions to obtain new subscribers with minimum commitment periods. Such loss on the sale of equipment is recorded upon customer acquisition or retention within material and equipment costs in the income statement. Phone set inventory impairment allowances are recognised immediately when the phone sets are no longer marketable to secure subscriber contractual commitment or if the resale value on a standalone basis (without the subscriber commitment) is lower than cost.

### 2.6 Cash and cash equivalents

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

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

## 2.7 Financial assets

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

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

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

**Loans and receivables**
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group's loans and receivables are detailed in Note 3.6.

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

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

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

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

## 2.8 Impairment of financial assets

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

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

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

## 2.9 Financial liabilities

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

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

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

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

## 2.10 Prepaid expenses

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

## 2.11 Provisions and contingent liabilities

Provisions for asset retirement obligations, restructuring costs and legal and regulatory claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

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

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

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

## 2.12 Employee benefit obligations

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

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

The Group also provides defined retirement and jubilee benefit plans granting certain amounts of pension or jubilee payments that an employee will receive on retirement, usually dependant on one or more factors such as an age, years of service and compensation. These benefits are unfunded. The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The last calculation was prepared on 31 December 2017. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using discount rate of weighted-average yields for high-quality (Bloomberg Aa*) - non-cancellable, non-putable corporate bonds. The currency and term of the bonds are broadly consistent with the currency and estimated term of the benefit obligations. Past service costs are recognised immediately in income statement.

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

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

## 2.13 Revenue recognition

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

The Group recognises revenue as follows:

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

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

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

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

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

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

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

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

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

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

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

## 2.14 Leases

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

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

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

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

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

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

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

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

## 2.15 Operating profit

Operating profit is defined as a result before income taxes and financial income and expenses. For financial income and expenses refer to Notes 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 recognised within financial income or expense in the period in which they arise.

## 2.17 Taxes

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

**Current income tax**
Current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted as of the statement of financial position date. Current income tax includes additional levy imposed by the Slovak government on regulated industries effective from 1 September 2012. From 2017, the levy of 8.712% per annum is applied on the basis calculated as the profit before tax determined in accordance with the Slovak Accounting Standards multiplied by ratio of regulated revenues (according to Act on Electronical Communications Nr. 351/2011) on total revenues. Until 2016 levy of 4.356% per annum was 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 in each relevant entity.

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 recognised 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 nor taxable profit or loss.

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

## 2.18 Significant accounting judgements, estimates and assumptions

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

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

**Useful lives of non-current assets**

The estimation of the useful lives of non-current assets is a matter of judgement based on the Group's experience with similar assets. The Group reviews the estimated remaining useful lives of non-current assets annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the depreciation or amortisation period, as appropriate, and are treated as changes in accounting estimates. Management's estimates and judgements are inherently prone to inaccuracy, in particular for those assets for which no previous experience exists.

The Group reviewed useful lives of non-current assets during 2017 and changed accounting estimates where appropriate. The table summarizes net (increase) or decrease in depreciation or amortisation charge for the following categories of non-current assets:

| thousands of EUR | 2017 | 2018 | 2019 | 2020 | 2021 and after |
|---|---|---|---|---|---|
| Telecommunications equipment | (485) | (116) | 182 | 122 | 297 |
| Radio and transmission equipment | (126) | 35 | 25 | 16 | 50 |
| Supporting technology | (533) | 41 | 45 | 41 | 406 |
| Other | (1,586) | 390 | 334 | 295 | 567 |
| | (2,730) | 350 | 586 | 474 | 1,320 |

**Customer relationships**

The Group maintains record of customer relationships obtained during the acquisition of control of T-Mobile, DIGI and PosAm (Note 12) and regularly evaluates appropriateness of useful lives used to amortise these intangible assets on the basis of churn of customers acquired through the business combinations. No changes to useful lives were necessary in 2017. If the useful lives of customer relationships were shortened by one year, the amortization would increase by EUR 437 thousand. If the useful lives of customer relationships were shortened by two years, the amortization would increase by EUR 1,077 thousand.

**Activation fees and subscriber acquisition and retention costs**

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

**Assessment of impairment of goodwill**

Goodwill is tested annually for impairment as further described in Note 2.4 using estimates detailed in Note 13.

**Asset retirement obligation**

The Group enters into lease contracts for land and premises on which mobile communication network masts are sited. The Group is committed by these contracts to dismantle the masts and restore the land and premises to their original condition. Management anticipates the probable settlement date of the obligation to equal useful life of mast, which is estimated to be 50 years. The remaining useful life of masts ranges from 26 to 50 at 31 December 2017.

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

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

If the economic useful life of the masts was shortened by 10 years (from 50 years to 40 years) it would cause an increase of asset retirement obligation by EUR 2,240 thousand. If the inflation rate increased by 0.5%, it would cause an increase of asset retirement obligation by EUR 3,555 thousand. If the risk-adjusted, pre-tax discount rate increased by 0.5%, it would cause a decrease of asset retirement obligation by EUR 2,926 thousand. If the amounts necessary to settle future obligations increased by 10%, it would cause an increase of asset retirement obligation by EUR 1,748 thousand.

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

## 2.19 Comparatives

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) Liabilities in amount of EUR 896 thousand are presented in current Other liabilities and deferred income in this consolidated statement of financial position of 2016 comparatives. In 2016 consolidated financial statements these liabilities were presented in current Trade and other payables.
b) Financial income in amount of EUR 1,230 thousand is presented in Other non-cash items in this consolidated statement of cash flows of 2016 comparatives. In 2016 consolidated financial statements this financial income was presented in Interest income, net.

Reclassification of balances had no impact on balances in the statement of financial position as of 1 January 2016; therefore no opening consolidated statement of financial position as at 1 January 2016 is presented in these consolidated 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 2017**

- Amendments to IAS 12 - Recognition of Deferred Tax Assets for Unrealised Losses, issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017.

  The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains.

- Amendments to IAS 7 (Disclosure Initiative) issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017.

  The amendments come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The adopted standards and amendments do not have material impact on the Group´s financial statements.

**Standards, interpretations and amendments to published standards that have been published, are not effective for accounting periods starting on 1 January 2017 and which the Group has not early adopted**

- IFRS 9 Financial Instruments, issued in July 2014 and effective for annual periods beginning on or after 1 January 2018.

  The package of improvements introduced by the Standard IFRS 9 issued in November 2009 and amended in October 2010, December 2011, November 2013 and July 2014 includes a model for classification and measurement, a single, forward-looking "expected loss" impairment model and substantially reformed approach to hedge accounting.

- Classification and Measurement: Classification determines how financial assets and liabilities are accounted for in financial statements and, in particular, how they are measured on an ongoing basis. IFRS 9 introduces an approach for the classification of financial assets, which is driven by cash characteristics and the business model in which an assets is held.
  As a result of the analysis of financial assets and liabilities conducted by the Group, there is no change in classification of the instruments with adoption of IFRS 9, and therefore no impact on the retained earnings.
  Instruments classified as Loans and Receivables under IAS 39 will be classified at Amortised cost under IFRS 9. Based on the management intention of the Group, the business model for all debt instruments is to hold the financial asset and collect contractual cash flows as opposed to realising its fair value change from sale prior to its contractual maturity. Occasional sales occur only for overdue receivables for which recovery of the claim by dedicated external agencies is unsuccessful. These sales do not contradict the objective of the business model. Concerning contractual cash flow characteristics, we have not identified any feature that would be inconsistent with SPPI criterion, therefore all debt instruments in the Group qualify for amortised cost measurement.
  Derivatives remain measured at fair value through profit or loss.
- Impairment: Standard introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the Standard requires entities to account for expected credit losses rather than only incurred credit losses as is the case under IAS 39.
  Based on the assessment undertaken, the Group expects an increase in the loss allowance for trade debtors by approximately EUR 3 million in relation to debt investments held at amortised cost. A deferred tax liability will be decreased by EUR 0.6 million as a consequence and the net impact on retained earnings will be EUR 2.4 million.

  Impact from application of an impairment model to contract assets under IFRS 15 Revenue from Contracts with Customers will not be material.

- Hedge accounting: IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements. The Group does not use hedge accounting, and there is no intention to use it in the nearest future.

The Group will apply the standard on 1 January 2018. The cumulative effect arising from the transition will be recognised as an adjustment to the opening balance of equity in the year of initial application.

Prior-year comparatives will not be restated; instead, the Group will provide an explanation of the reasons for the changes in items in the statement of financial position and the income statement for the current period as a result of applying IFRS 9 for the first time.

- IFRS 15 Standard on the recognition of revenue from contracts with customers, issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018. The new standard will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard has a material effect on the presentation of Group's results of operations and financial position.

  Depending on the business model applied, the new provisions address the following issues with material impact in particular:

  - In the case of multiple-element arrangements (e.g. mobile contract plus handset) with subsidised products delivered in advance, a larger portion of the total consideration is attributable to the component delivered in advance (mobile handset), requiring earlier recognition of revenue. This leads to the recognition of what is known as a contract asset – a receivable arising from the customer contract that has not yet legally come into existence – in the statement of financial position.
    At the same time, this will generally lead to higher revenue from the sale of goods and merchandise and to lower revenue from the provision of services.
    The scope of the changes resulting from the initial application of IFRS 15 that are described above therefore largely depends on the business models used by the Group.
    The Group estimates that contract asset will have to be recognised in the amount approximately EUR 46 million, deferred tax liability increased by EUR 9 million and retained earnings increased by EUR 37 million on 1 January 2018.
  - Future capitalisation and allocation of the expenses for sales commissions (customer acquisition costs) over the estimated customer retention period. Increase in total assets on initial application due to the capitalisation of contract assets and customer acquisition costs.

    The Group estimates that contract asset will have to be recognised in the amount approximately EUR 21 million, deferred tax liability increased by EUR 4 million and retained earnings increased by EUR 17 million on 1 January 2018.

- Deferral, i.e., later recognition of revenue in cases where "material rights" are granted, such as offering additional discounts for future purchases of further products.
  The Group estimates that there will not be any material impact from material rights on 1 January 2018.
- When discounts on service fee are granted unevenly for specific months of a contract while monthly service is provided evenly to the customer, service revenue shall be recognised on a straight-lined basis.
  The Group estimates that contract asset will have to be recognised in the amount approximately EUR 3 million, deferred tax liability increased by EUR 1 million and retained earnings increased by EUR 2 million on 1 January 2018.
- Some one-time fees (mainly connection/activation fees which are generally paid at contract inception) not fulfil definition of a separate performance obligation but represent a prepayment on future services.
  As an impact of this the Group estimates that contract liability will have to be recognised in the amount approximately EUR 5 million, deferred tax liability decreased by EUR 1 million and retained earnings decreased by EUR 4 million on 1 January 2018.
- The advanced payments for post-paid services lead to recognition of contract liability which is derecognised appropriately to the minimum contract term.
  The Group estimates that contract liability will have to be recognised in the amount approximately EUR 14.6 million and deferred income decreased by the same amount on 1 January 2018.
- For the purposes of determining whether the Group sells products for its own account (principal = gross revenue) or for the account of others (agent = net revenue), it is unlikely there will be any material changes.

The Group will utilise the option for simplified initial application, i.e. contracts that are not completed by 1 January 2018 will be accounted for as if they had been recognised in accordance with IFRS 15 from the very beginning. The cumulative effect arising from the transition is estimated to be approximately EUR 69 million and will be recognised as an adjustment to the opening balance of equity in the year of initial application. Analysis is still ongoing and the estimated impact may be changed.

Prior-year comparatives will not be restated; instead, the Group will provide an explanation of the reasons for the changes in items in the statement of financial position and the income statement for the current period as a result of applying IFRS 15 for the first time.

- IFRS 16 Standard on the recognition, measurement, presentation and disclosure of leases, issued on 13 January 2016 and effective for the periods beginning on or after 1 January 2019. Depending on the business model applied, the new provisions address the following issues in particular:

  - Whereas previously there was a requirement to disclose payment obligations for operating leases in the notes to the financial statements, from now on, the resulting rights and obligations must be recognised as rights of use and lease liabilities in the statement of financial position.
  - The Group anticipates a significant increase in total assets on first-time adoption on account of the increase in lease liabilities as well as a similarly high increase in non-current assets due to the right-of-use assets to be capitalised. The increase in lease liabilities leads to a corresponding increase in net debt.
  - Going forward, depreciation charges and interest expense will be reported in the income statement instead of lease expense. This will give rise to a significant improvement in EBITDA and to a similar increase in the net cash from operating activities reported in the statement of cash flows.
  - For the Group as a lessor, the new definition of a lease may affect the number of items to be accounted for as leases.

The overall effects will be analysed as part of a project for implementing IFRS 16, though a reliable estimate of the quantitative effects is not possible until the project has been completed. For future minimum operating lease payments refer to Note 26.

# 3. FINANCIAL RISK MANAGEMENT

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

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

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

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

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

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

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

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

| thousands of EUR | | 2017 | 2016 |
|---|---|---|---|
| Profit before tax | Depreciation of USD by 10% | (265) | 299 |
| | Appreciation of USD by 10% | 265 | (299) |
| Equity | Depreciation of USD by 10% | (210) | 233 |
| | Appreciation of USD by 10% | 210 | (233) |

### 3.1.2 Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group entered into a master agreement with DT AG in October 2008 based on which the Group provided loans to DT AG. Currently, there is outstanding loan in amount of EUR 183,000 thousand (2016: EUR 180,000 thousand) at fixed interest rate (Note 19). The term deposits in banks outstanding at 31 December 2017 in the amount of EUR 6,336 thousand (2016: EUR 4,422 thousand) have been concluded with fixed interest rate (Note 18).

### 3.1.3 Other price risk

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

### 3.2 Credit risk

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

The Group is exposed to credit risk from its operating activities and certain financing activities. The Group's credit risk policy defines products, maturities of products and limits for financial counterparties. The Group limits credit exposure to individual financial institutions on the basis of the credit ratings assigned to these institutions by reputable rating agencies and these limits are reviewed on a regular basis. The Group is exposed to concentration of credit risk from holding loan receivable in the amount of EUR 183,000 thousand (2016: EUR 180,000 thousand) provided to DT AG (Germany).

For credit ratings see following tables:

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Term deposits (Note 18) | | |
| A2 | 6,336 | 4,422 |
| | 6,336 | 4,422 |

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Loans (Note 19) | | |
| Baa1 | 183,000 | 180,000 |
| | 183,000 | 180,000 |

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Cash and cash equivalents (Note 20) | | |
| Aa3 | 1,707 | - |
| A1 | - | 4,934 |
| A2 | 44,664 | 29,672 |
| A3 | 30,011 | - |
| Baa1 | 355 | 11,094 |
| Baa2 | - | 9,916 |
| Not rated | 588 | 566 |
| | 77,325 | 56,182 |

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

The Group establishes an allowance for impairment that represents its estimate of losses incurred in respect of trade and other receivables. Impairment losses are recognised to cover both individually significant credit risk exposures and a collective loss component for assets that are assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables includes the Group's past experience of collecting payments, as well as changes in the internal and external ratings of customers.

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

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

The table summarises the ageing structure of receivables:

| | | Past due but not impaired | | | | | | |
|---|---|---|---|---|---|---|---|---|
| thousands of EUR | Neither past due nor impaired | < 30 days | 31-90 days | 91-180 days | 181-365 days | > 365 days | Impaired | Total |
| At 31 December 2017 | | | | | | | | |
| Trade and other receivables | 94,643 | 850 | 206 | 563 | 1,086 | 1,972 | 13,389 | 112,709 |
| At 31 December 2016 | | | | | | | | |
| Trade and other receivables | 99,642 | 1,232 | 702 | 208 | 1,043 | 141 | 10,887 | 113,855 |

No significant individually impaired trade receivables were included in the allowance for impairment losses in 2017 and 2016.

Trade receivables that are past due as at 31 December 2017, but not impaired, are from creditworthy customers who have a good track record with the Group and, based on historical default rates, management believes that no additional impairment allowance is necessary. Management also believes that currently no additional impairment allowance is necessary to trade receivables that are neither past due nor impaired.

For sensitivity of impairment charge of uncollectible receivables refer to Note 14.

### 3.3 Liquidity risk

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

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

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

| thousands of EUR | On demand | Less than 3 months | 3 to 12 months | Over 1 year | Total |
|---|---|---|---|---|---|
| At 31 December 2017 | | | | | |
| Trade and other payables | 3,196 | 125,144 | 17,511 | 4,707 | 150,558 |
| At 31 December 2016 | | | | | |
| Trade and other payables | 6,211 | 120,230 | 19,901 | 7,118 | 153,460 |

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

| thousands of EUR | Gross amounts | Offsetting | Net amounts |
|---|---|---|---|
| At 31 December 2017 | | | |
| Current financial assets – Trade receivables | 7,294 | (4,896) | 2,398 |
| Current financial liabilities – Trade payables | 6,747 | (4,896) | 1,851 |
| | | | |
| At 31 December 2016 | | | |
| Current financial assets – Trade receivables | 13,982 | (6,951) | 7,031 |
| Current financial liabilities – Trade payables | 9,542 | (6,951) | 2,591 |

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

### 3.4 Capital management

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

The Company's management proposes to the owner of the Company (through the Board of Directors) to approve dividend payments or adopt other changes in the Company's equity capital in order to optimize the capital structure of the Group. This can be achieved primarily by adjusting the amount of dividends paid to shareholder, or alternatively, by returning capital to shareholder by capital reductions, issue new shares or sell assets to reduce debt. The Group also takes into consideration any applicable guidelines of the parent company. No changes were made to the objectives, policies or processes in 2017.

The capital structure of the Group consists of equity attributable to shareholder, comprising issued capital, statutory reserve fund, retained earnings and other components of equity (Note 21). The management of the Group manages capital measured in terms of shareholder's equity amounting to at 31 December 2017 EUR 1,115,774 thousand (2016: EUR 1,104,564 thousand).

### 3.5 Fair value

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

#### 3.5.1 Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. There were no recurring fair value measurements in 2017 and 2016.

#### 3.5.2 Non-recurring fair value measurements

There were no non-recurring fair value measurements in 2017 and 2016.

#### 3.5.3 Financial assets and financial liabilities not measured at fair value

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

### 3.6 Presentation of financial instruments by measurement category

Presentation of financial instruments by measurement category in accordance with IAS 39 is as follows:

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| ASSETS | | |
| Loans and receivables | | |
| Trade and other receivables (Note 14) | 112,709 | 113,855 |
| Term deposits (Note 18) | 6,336 | 4,422 |
| Loans (Note 19) | 183,000 | 180,000 |
| Cash and cash equivalents (Note 20) | 77,325 | 56,182 |
| | | |
| LIABILITIES | | |
| Financial liabilities at amortised cost | | |
| Trade and other payables (Note 23) | | |
| Trade payables | 58,847 | 64,452 |
| Uninvoiced deliveries | 50,455 | 54,615 |
| Financial payables | 18,748 | 22,341 |
| Finance lease payables | 311 | - |
| Other payables | 13,660 | 873 |
| Financial liabilities at fair value through profit or loss | | |
| Trade and other payables (Note 23) | | |
| Put option | 8,537 | 11,179 |

## 4. REVENUE

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Fixed network revenue | 270,368 | 291,718 |
| Mobile network revenue | 333,140 | 332,656 |
| Terminal equipment | 33,241 | 33,075 |
| System solutions / IT | 66,044 | 59,786 |
| Other | 45,044 | 48,749 |
| | 747,837 | 765,984 |

## 5. STAFF COSTS

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Wages and salaries | 98,059 | 99,433 |
| Defined contribution pension costs | 12,910 | 11,885 |
| Other social security contributions | 18,838 | 16,427 |
| | 129,807 | 127,745 |

| | 2017 | 2016 |
|---|---|---|
| Number of employees at period end | 3,507 | 3,268 |
| Average number of employees during the period | 3,459 | 3,317 |

## 6. OTHER OPERATING INCOME

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Gain on disposal of property and equipment and intangible assets, net | 387 | 973 |
| Income from material sold, net | 1,064 | 864 |
| Income from rental of premises | 1,842 | 1,901 |
| Reversal of impairment of property and equipment (Note 11) | 423 | 2,024 |
| Income from marketing activities | 3,602 | 4,693 |
| Other | 4,331 | 3,953 |
| | 11,649 | 14,408 |

## 7. OTHER OPERATING COSTS

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Repairs and maintenance | 15,352 | 17,100 |
| Installation services | 946 | 1,044 |
| Marketing costs | 18,402 | 21,175 |
| Energy | 12,964 | 13,251 |
| Printing and postage | 4,562 | 4,107 |
| Logistics | 4,587 | 4,597 |
| Rentals and leases | 19,396 | 18,832 |
| IT services | 6,755 | 6,811 |
| Dealer commissions | 20,554 | 22,036 |
| Frequency and other fees to Regulatory Authority | 4,757 | 4,700 |
| Content fees | 17,311 | 16,593 |
| Legal and regulatory claims (Note 22) | 17,906 | 25,481 |
| Consultancy | 1,897 | 3,773 |
| Bad debts expenses | 4,812 | 5,263 |
| Services related to delivery of solutions for customers | 36,480 | 32,459 |
| Fees paid to DT AG group | 4,733 | 4,919 |
| Other | 20,613 | 21,138 |
| Own work capitalised | (20,001) | (13,994) |
| | 192,026 | 209,285 |

## 8. FINANCIAL INCOME

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Reversal of impairment on investments at amortised cost | - | 402 |
| Gain on disposal of available-for-sale investments (Note 17) | - | 614 |
| Interest on term deposits and bank accounts | 146 | 81 |
| Remeasurement of put option liability (Note 23) | 2,642 | 1,230 |
| Interest on loans (Notes 19, 27) | 13 | 61 |
| Interest on available-for-sale investments | - | 13 |
| Interest from finance lease | 4 | 17 |
| Foreign exchange gains, net | - | 197 |
| Other | 739 | 772 |
| | 3,544 | 3,387 |

## 9. FINANCIAL EXPENSE

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Dividends paid to minority owners of PosAm | 541 | 840 |
| Foreign exchange losses, net | 181 | - |
| Interest costs on employee benefits provision | 185 | 219 |
| Interest cost on other non-current provisions | 443 | 420 |
| Bank charges and other financial expense | 29 | 75 |
| | 1,379 | 1,554 |

## 10. TAXATION

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

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Current tax expense | 39,289 | 34,878 |
| Deferred tax income | (8,847) | (11,446) |
| Levy on regulated industries | 7,168 | 3,456 |
| Income tax expense reported in the income statement | 37,610 | 26,888 |

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 | 2017 | 2016 |
|---|---|---|
| Profit before income tax | 110,534 | 93,614 |
| Income tax calculated at the statutory rate of 21% (2016: 22%) | 23,212 | 20,595 |
| Effect of non-taxable income and tax non-deductible expenses: | | |
| Cost related to legal and regulatory claims | 3,727 | 5,601 |
| Other tax non-deductible items, net | 765 | 1,920 |
| Tax charge / (tax refund) in respect of prior years | 2,738 | (212) |
| Levy on regulated industries | 7,168 | 3,456 |
| Effect of change in tax rate | - | (4,472) |
| Income tax at the effective tax rate of 34% (2016: 29%) | 37,610 | 26,888 |

Change of the income tax rate from 22% to 21%, effective from 1 January 2017, resulted in the decrease of the deferred tax liability of EUR 4,472 thousand in these financial statements with the positive effect on the tax expense of EUR 4,441 thousand and on the other comprehensive income of EUR 31 thousand.

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

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

| thousands of EUR | 1 January 2016 | Through income statement | Through statement of comprehensive income | 31 December 2016 |
|---|---|---|---|---|
| Difference between carrying and tax value of fixed assets | (123,897) | 12,680 | - | (111,217) |
| Allowance for investments at amortised cost | 2,269 | (2,269) | - | - |
| Staff cost accruals | 2,752 | (373) | - | 2,379 |
| Allowance for bad debts | 3,312 | (324) | - | 2,988 |
| Termination benefits | 1,008 | (82) | - | 926 |
| Retirement benefit obligation | 2,363 | (59) | 228 | 2,532 |
| Asset retirement obligation | 2,248 | 443 | - | 2,691 |
| Other | 4,350 | 1,430 | - | 5,780 |
| Net deferred tax liability | (105,595) | 11,446 | 228 | (93,921) |

Deferred tax asset of EUR 1,097 thousand is recognised in respect of subsidiaries DIGI, PosAm and Zoznam and deferred tax liability of EUR 86,059 thousand in respect of other entities. The Group offsets deferred tax assets and deferred tax liabilities if, and only if, those relate to income taxes levied by the same taxation authority on the same taxable entity.

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Deferred tax asset to be settled within 12 months | 1,180 | 1,253 |
| Deferred tax asset to be settled after more than 12 months | 5 | 8 |
| Deferred tax liability to be settled after more than 12 months | (88) | (42) |
| Net deferred tax asset | 1,097 | 1,219 |

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Deferred tax asset to be settled within 12 months | 11,010 | 10,241 |
| Deferred tax asset to be settled after more than 12 months | 6,933 | 5,808 |
| Deferred tax liability to be settled within 12 months | (895) | (808) |
| Deferred tax liability to be settled after more than 12 months | (103,107) | (110,381) |
| Net deferred tax liability | (86,059) | (95,140) |

# 11. PROPERTY AND EQUIPMENT

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

Property and equipment, excluding motor vehicles, is locally insured to a limit of EUR 25,000 thousand (2016: EUR 25,996 thousand). Any loss exceeding local limit is insured by DT AG Global Insurance Program up to EUR 700,000 thousand. The Group has the third party liability insurance for all motor vehicles.

| thousands of EUR | Land, buildings and structures | Duct, cable and other outside plant | Telecommu-nications equipment | Radio and transmission equipment | Other | Capital work in progress including advances | Total |
|---|---|---|---|---|---|---|---|
| At 1 January 2016 | | | | | | | |
| Cost | 186,179 | 994,087 | 599,883 | 319,391 | 330,303 | 50,741 | 2,480,584 |
| Accumulated depreciation | (104,834) | (546,897) | (542,444) | (277,535) | (241,853) | (488) | (1,714,051) |
| Net book value | 81,345 | 447,190 | 57,439 | 41,856 | 88,450 | 50,253 | 766,533 |
| Additions | 3,038 | 10,043 | 3,616 | 6,398 | 9,524 | 48,586 | 81,205 |
| Depreciation charge | (3,603) | (35,161) | (18,336) | (16,407) | (28,749) | - | (102,256) |
| Impairment charge | (80) | (33) | (10) | - | (359) | - | (482) |
| Reversal of impairment | - | 1 | 1,934 | - | 52 | 37 | 2,024 |
| Disposals | (4,095) | (4) | (2) | - | (196) | (232) | (4,529) |
| Transfers | 994 | 5,296 | 6,934 | 12,969 | 16,370 | (42,563) | - |
| At 31 December 2016 | | | | | | | |
| Cost | 176,231 | 1,009,356 | 505,488 | 269,859 | 331,798 | 56,515 | 2,349,247 |
| Accumulated depreciation | (98,632) | (582,024) | (453,913) | (225,043) | (246,706) | (434) | (1,606,752) |
| Net book value | 77,599 | 427,332 | 51,575 | 44,816 | 85,092 | 56,081 | 742,495 |

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Additions | 85,622 | 81,205 |
| Non-cash additions from asset retirement obligation | (4,224) | (2,186) |
| Change in payables for purchase of property and equipment | 2,656 | 1,618 |
| Cash used for purchase of property and equipment from investing activities | 84,054 | 80,637 |

# 12. INTANGIBLE ASSETS

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

Customer relationships recognized at the acquisition of T-Mobile in December 2004 were fully amortised at 31 December 2017. At 31 December 2016 the net book value amounted to EUR 19,195 thousand.

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

Net book value of the category Other includes intangible assets in progress of EUR 26,341 thousand (2016: EUR 31,870 thousand).

For cost and impairment of goodwill refer to Note 13.

| thousands of EUR | Software | Licences | Internally developed intangible assets | Goodwill | Customer relationships | Other | Total |
|---|---|---|---|---|---|---|---|
| At 1 January 2016 | | | | | | | |
| Cost | 446,459 | 226,036 | 6,049 | 112,970 | 306,610 | 25,487 | 1,123,611 |
| Accumulated amortisation | (407,289) | (101,499) | (2,457) | (3,000) | (237,167) | (27) | (751,439) |
| Net book value | 39,170 | 124,537 | 3,592 | 109,970 | 69,443 | 25,460 | 372,172 |
| Additions | 18,643 | 19,251 | 730 | - | - | 19,893 | 58,517 |
| Amortisation charge | (33,417) | (22,805) | (604) | - | (22,186) | - | (79,012) |
| Transfers | 13,010 | 4 | 469 | - | - | (13,483) | - |
| At 31 December 2016 | | | | | | | |
| Cost | 470,541 | 232,302 | 7,225 | 112,970 | 290,531 | 31,870 | 1,145,439 |
| Accumulated amortisation | (433,135) | (111,315) | (3,038) | (3,000) | (243,274) | - | (793,762) |
| Net book value | 37,406 | 120,987 | 4,187 | 109,970 | 47,257 | 31,870 | 351,677 |

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Additions | 58,807 | 58,517 |
| Additions paid from financing activities (Note 23) | (13,498) | (22,787) |
| Change in payables for purchase of intangible assets | (2,312) | 2,137 |
| Cash used for purchase of intangible assets from investing activities | 42,997 | 37,867 |

## 13. IMPAIRMENT OF GOODWILL

For impairment testing, the goodwill acquired in business combinations has been allocated to individual cash-generating units, as of 31 December 2017 and 2016:

| thousands of EUR | T-Mobile | DIGI | PosAm | Zoznam and Zoznam Mobile | Total |
|---|---|---|---|---|---|
| Goodwill allocated to cash-generating units | 73,313 | 28,621 | 6,368 | 4,668 | 112,970 |
| Impairment | - | - | - | (3,000) | (3,000) |
| | 73,313 | 28,621 | 6,368 | 1,668 | 109,970 |

**T-Mobile (Mobile telecommunication business)**
The goodwill was recognised at the acquisition of T-Mobile in December 2004. The recoverable amount of the cash-generating unit was determined using cash flows projections based on the ten-year financial plans that present the management's best estimate on market participants' assumptions and expectations. The Group uses ten-year cash flow projections as the payback period of the investments in the telecommunications operations often exceeds 5 years. Cash flows beyond the ten-year period are extrapolated using a 1.5% growth rate (2016: 1.5%) and a discount rate of 5.49% (2016: 5.31%). The growth rate does not exceed the long-term average growth rate for the market in which the cash-generating unit operates. Further key assumptions on which management has based its determination of the recoverable amount of cash-generating unit include the development of revenue, customer acquisition and retention costs, churn rates, capital expenditures and market share. The recoverable amount of the cash-generating unit based on fair value less costs of disposal calculation exceeded its carrying value. Management believes that any reasonably possible change in the key assumptions on which the cash-generating unit's recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

**DIGI, PosAm, Zoznam and Zoznam Mobile**
The recoverable amounts of the cash-generating units were determined using cash flows projections based on the four-year financial plans that have been approved by management and are also used for internal purposes of the cash-generating units. Cash flows beyond the four-year period are extrapolated using a 1.5% growth rate (2016: 1.5%). The growth rate does not exceed the long-term average growth rate for the market in which the cash-generating units operate.

The Group uses following discount rates:

| | 2017 | 2016 |
|---|---|---|
| DIGI (TV business) | 5.91% | 5.79% |
| PosAm (IT solutions business) | 6.45% | 6.26% |
| Zoznam and Zoznam Mobile (Online business) | 7.63% | 7.41% |

Further key assumptions on which management has based its determination of the recoverable amounts of the cash-generating units include the development of revenue, customer acquisition and retention costs, capital expenditure and market share. In 2017 and 2016, the recoverable amounts of the cash-generating units based on fair value less costs of disposal calculation exceeded its carrying amounts. Management believes that any reasonably possible change in the key assumptions on which the cash-generating unit's recoverable amounts are based would not cause its carrying amounts to exceed its recoverable amounts.

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

## 14. TRADE AND OTHER RECEIVABLES

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Non-current | | |
| Receivables from instalment sale | 201 | 673 |
| Finance lease receivables | 1,445 | 567 |
| | 1,646 | 1,240 |
| Current | | |
| Trade receivables | 109,686 | 111,535 |
| Other receivables | 570 | 436 |
| Finance lease receivables | 807 | 644 |
| | 111,063 | 112,615 |

Trade receivables are net of an allowance of EUR 20,355 thousand (2016: EUR 19,609 thousand). If the allowance percentage increases by 1% in each relevant ageing group (except where there is 100% allowance created), the charge for the period would be by EUR 188 thousand higher (2016: EUR 171 thousand).

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

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| At 1 January | 19,609 | 20,477 |
| Charge for the year, net | 5,012 | 3,326 |
| Utilised | (4,266) | (4,194) |
| At 31 December | 20,355 | 19,609 |

## 15. PREPAID EXPENSES AND OTHER ASSETS

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Non-current | | |
| Easements | 9,207 | 9,560 |
| Subscriber acquisition costs | 2,440 | 1,842 |
| Other prepaid expenses | 2,038 | 1,824 |
| | 13,685 | 13,226 |
| Current | | |
| Subscriber acquisition costs | 1,660 | 1,753 |
| Other prepaid expenses | 4,441 | 4,306 |
| Other assets | 2,978 | 6,143 |
| | 9,079 | 12,202 |

## 16. INVENTORIES

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Materials | 6,216 | 7,365 |
| Goods | 10,301 | 9,252 |
| | 16,517 | 16,617 |

Inventories are net of an allowance of EUR 1,940 thousand (2016: EUR 1,774 thousand). The write-down of inventories in amount of EUR 576 thousand (2016: EUR 880 thousand) was recognised in cost of material and equipment.

## 17. AVAILABLE-FOR-SALE INVESTMENTS

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| At 1 January | - | 31,079 |
| Additions | - | 2,145 |
| Disposals | - | (33,065) |
| Amortisation of premium paid | - | (147) |
| Remeasurement recognised in other comprehensive income | - | (12) |
| At 31 December | - | - |

The Group held bank bond, which was until 2015 classified as an investment at amortised cost. The bond matured in 2008. In December 2015 the Composition Agreement between issuer of the bond and composition creditors came into effect. Following the Composition Agreement, the claim from the bond ceased to exist and the Group received at the beginning of 2016 entitlements from the Composition Agreement: cash payment in amount of EUR 1,378 thousand, the convertible notes with the nominal value of GBP 2,551 thousand and with maturity of 15 years and 11,214,318 pieces of the shares with the nominal value of ISK 11,214 thousand. The notes and shares were categorised as available-for-sale investments in 2016. The notes and shares were sold in December 2016 with the gain of EUR 614 thousand (Note 8).

Other available-for-sale investments comprised of state bonds, which matured in 2016. In 2016 the Group reclassified gain of EUR 9 thousand from other comprehensive income to income statement.

## 18. TERM DEPOSITS

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Term deposits in banks | 6,336 | 4,422 |
| | 6,336 | 4,422 |

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

## 19. LOANS

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Loans to Deutsche Telekom AG | 183,000 | 180,000 |
| | 183,000 | 180,000 |

The loans granted to Deutsche Telekom AG were not secured. Loans outstanding at 31 December 2017 were provided in December 2017 and were repayable in January 2018 (2016: provided during August to December 2016, repayable during January to March 2017). Interest on loans amounted to EUR 13 thousand (2016: EUR 61 thousand) (Notes 8, 27). For credit ratings see Note 3.2.

## 20. CASH AND CASH EQUIVALENTS

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Cash and cash equivalents | 77,325 | 56,182 |
| | 77,325 | 56,182 |

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

## 21. SHAREHOLDERS' EQUITY

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

As of 31 December 2017, Slovak Telekom had authorised and issued 86,411,300 ordinary shares (2016: 86,411,300) with a par value of EUR 10.00 per share (2016: EUR 10.00 per share). All the shares issued were fully subscribed.

The statutory reserve fund is set up in accordance with Slovak law and is not distributable. The reserve is created from retained earnings to cover possible future losses. In 2013, after the distribution of 2012 statutory profit, the statutory reserve fund reached the level required by the Slovak law and the Articles of Association of Slovak Telekom, a.s.

Category Other in the Consolidated statement of changes in equity covers changes of equity from retirement benefits (Note 22), available-for-sale investments (Note 17) and share-based payment plan.

The Financial statements of the Group for the year ended 31 December 2016 were authorised for issue on behalf of the Board of Directors of Slovak Telekom on 16 March 2017.

On 27 April 2017 Deutsche Telekom Europe B.V. while performing competences of the General meeting of Slovak Telekom approved distribution of the prior year profit in the form of dividends. Total dividends of EUR 61,232 thousand (2016: EUR 69,743 thousand) were paid in May 2017, which amounted to EUR 0.71 per share (2016: EUR 0.81 per share).

Approval of the 2017 profit distribution will take place at the Annual General Meeting scheduled for April 2018.

## 22. PROVISIONS

| thousands of EUR | Legal and regulatory claims (Note 28) | Asset retirement obligation | Termination benefits | Employee benefits | Other | Total |
|---|---|---|---|---|---|---|
| At 1 January 2017 | 28,511 | 12,818 | 4,410 | 12,347 | 2,221 | 60,307 |
| Arising during the year | 972 | 868 | 1,542 | 799 | 992 | 5,173 |
| Utilised | (12,728) | - | (3,784) | (21) | (955) | (17,488) |
| Reversals | (746) | - | (606) | 195 | (65) | (1,222) |
| Transfers | (12,500) | - | - | - | (66) | (12,566) |
| Interest impact | - | 3,794 | - | 190 | - | 3,984 |
| At 31 December 2017 | 3,509 | 17,480 | 1,562 | 13,510 | 2,127 | 38,188 |
| | | | | | | |
| Non-current | - | 17,480 | - | 13,510 | 1,081 | 32,071 |
| Current | 3,509 | - | 1,562 | - | 1,046 | 6,117 |
| | 3,509 | 17,480 | 1,562 | 13,510 | 2,127 | 38,188 |

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Non-current | 32,071 | 26,145 |
| Current | 6,117 | 34,162 |
| | 38,188 | 60,307 |

**Asset retirement obligation**

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

**Termination benefits**

The restructuring of the Group operations resulted in headcount reduction of 198 employees in 2017. The Group expects a further headcount reduction of 74 employees in 2018 as a result of an ongoing restructuring program. A detailed formal plan that specifies the number of staff involved and their locations and functions was defined and authorised by management and announced to the trade unions. The amount of compensation to be paid for terminating employment was calculated by reference to the collective agreement. The termination payments are expected to be paid within twelve months of the statement of financial position date and are recognised in full in the current period. In 2017 the Group recognised an expense resulting from termination benefits in amount of EUR 5,082 thousand (2016: EUR 3,765 thousand) in staff costs.

**Retirement and jubilee benefits**

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

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

| thousands of EUR | Retirement benefits | Jubilee | Total |
|---|---|---|---|
| Present value of the defined benefit obligation | | | |
| At 1 January 2016 | 10,739 | 284 | 11,023 |
| Current service cost | 704 | 18 | 722 |
| Interest cost | 219 | 6 | 225 |
| Benefits paid | (14) | (16) | (30) |
| Remeasurement of defined benefit plans | 1,177 | (2) | 1,175 |
| Curtailment gain | (768) | - | (768) |
| At 31 December 2016 | 12,057 | 290 | 12,347 |

Remeasurement of defined benefit plans related to retirement benefits in amount of EUR 533 thousand consists of experience adjustments in amount of EUR 624 thousand, partially netted by change in financial assumptions in amount of EUR 11 thousand and by change in demographic assumptions in amount of EUR 80 thousand.

The curtailment gain in amount of EUR 331 thousand resulted mainly from a reduction in the number of participants covered by the retirement plan that occurred in 2017 or was announced for 2018. There were no special events causing any new past service cost during 2017 other than the curtailment mentioned above.

Principal actuarial assumptions used in determining the defined benefit obligation and the curtailment effect in 2017 include the discount rate of 1.58% (2016: 1.56%). The expected expense for 2017 has been determined based on the discount rate as at the beginning of the accounting period of 1.56% (2016: 2.07%). Average retirement age is 62 years (2016: 62 years). The expected growth of nominal wages over the long term is 2.0% (2016: 2.0%) with minor adjustments for the first three years. The remaining weighted average duration of the defined benefit obligation is 13.3 years (2016: 13.0 years).

The sensitivity analysis for the significant actuarial assumptions as at 31 December 2017 and 2016 is as follows:

| thousands of EUR | (Decrease) / increase of employee benefits provision | |
|---|---|---|
| Change of actuarial assumption: | 2017 | 2016 |
| Discount rate change +100 bp / -100 bp | (1,559) / 1,786 | (1,442) / 1,655 |
| Salary change +0.50% / -0.50% | 858 / (810) | 795 / (749) |
| Change in life expectation +1 year / -1 year | 16 / (18) | 14 / (15) |

# 23. TRADE AND OTHER PAYABLES

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Non-current | | |
| Financial payables | 4,098 | 7,118 |
| Finance lease payables | 62 | - |
| Other payables | 547 | - |
| | 4,707 | 7,118 |
| Current | | |
| Trade payables | 58,847 | 64,452 |
| Uninvoiced deliveries | 50,455 | 54,615 |
| Put option | 8,537 | 11,179 |
| Financial payables | 14,650 | 15,223 |
| Finance lease payables | 249 | - |
| Other payables | 13,113 | 873 |
| | 145,851 | 146,342 |

Reconciliation of cash used in financing activities:

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Financial payables at 1 January | 22,341 | 13,751 |
| Additions (Note 12) | 13,498 | 22,787 |
| Cash used in financing activities | (16,591) | (14,291) |
| Foreign exchange adjustments | (500) | 94 |
| Financial payables at 31 December | 18,748 | 22,341 |

# 24. OTHER LIABILITIES AND DEFERRED INCOME

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Non-current | | |
| Deferred income | 5,589 | 3,380 |
| | 5,589 | 3,380 |
| Current | | |
| Deferred income | 35,806 | 36,062 |
| Amounts due to employees | 21,629 | 20,558 |
| Other tax liabilities | 10,154 | 9,983 |
| Other liabilities | 5,487 | 4,913 |
| | 73,076 | 71,516 |

Amounts due to employees include social fund liabilities:

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| At 1 January | 115 | 89 |
| Additions | 1,531 | 1,488 |
| Utilisation | (1,531) | (1,462) |
| At 31 December | 115 | 115 |

## 25. COMMITMENTS

The Group's purchase commitments were as follows:

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Acquisition of property and equipment | 57,882 | 27,540 |
| Acquisition of intangible assets | 5,622 | 9,115 |
| Purchase of services and inventory | 100,366 | 70,110 |
| | 163,870 | 106,765 |

## 26. OPERATING LEASE – THE GROUP AS LESSEE

The future minimum operating lease payments were as follows:

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Operating lease payments due within one year | 17,946 | 21,074 |
| Operating lease payments due between one and five years | 34,981 | 37,291 |
| Operating lease payments due after five years | 10,446 | 14,365 |
| | 63,373 | 72,730 |

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

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

## 27. RELATED PARTY TRANSACTIONS

| thousands of EUR | Receivables | | Payables | | Sales and income | | Purchases | | Commitments | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| DT AG | 187,815 | 188,019 | 7,752 | 8,635 | 3,986 | 5,077 | 8,712 | 6,732 | 168 | 2,403 |
| Other entities in DT AG group | 6,476 | 4,361 | 8,616 | 6,029 | 22,653 | 13,331 | 21,646 | 11,125 | 14,746 | 2,365 |
| | 194,291 | 192,380 | 16,368 | 14,664 | 26,639 | 18,408 | 30,358 | 17,857 | 14,914 | 4,768 |

The Group conducts business with its ultimate parent, Deutsche Telekom AG and its subsidiaries, associates and joint ventures. Business transactions relate mainly to telephone calls and other traffic in the related parties' networks. Other transactions include data services, management, consultancy, other services and purchases of fixed assets. The Group purchased fixed assets in amount of EUR 1,124 thousand (2016: EUR 324 thousand) from related parties.

In 2017 the Group granted Deutsche Telekom AG a short-term loan of EUR 183,000 thousand (2016: EUR 180,000 thousand). Interest related to the loan amounted to EUR 13 thousand (2016: EUR 61 thousand) (Notes 8, 19).

In 2016 the Group signed an ICT contract with a duration of 80 months with T-Systems International GmbH ("TSI"). Within this contract, the Group acts as the main subcontractor for the restructuring of the Allianz communication network in the selected countries. DT AG Group entities in relevant countries are service providers for the Group. The total value of the contract amounts to EUR 41,537 thousand. In 2017 the Group recognised revenue with TSI in amount of EUR 4,829 thousand (2016: EUR 1,614 thousand), revenue with other DT AG Group entities in amount of EUR 274 thousand (2016: EUR 117 thousand) and expenses with other DT AG Group entities in amount of EUR 3,898 thousand (2016: EUR 1,250 thousand).

Deutsche Telekom as the ultimate parent company controlling Slovak Telekom is a related party to the Federal Republic of Germany. Slovak Telekom had no individually significant transactions with the Federal Republic of Germany or entities that it controls, jointly controls or where Federal Republic of Germany can exercise significant influence in either 2017 or 2016.

**Compensation of key management personnel**
The key management personnel as at 31 December 2017, 15 in number (2016: 16) include members of the Management Board, Board of Directors and Supervisory Board.

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

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Short term employee benefits | 2,316 | 1,748 |
| Defined contribution pension plan benefits | 52 | 31 |
| Share-based payment plan | 15 | 7 |
| | 2,383 | 1,786 |

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Management Board | 2,352 | 1,760 |
| Board of Directors | 15 | 7 |
| Supervisory Board | 16 | 19 |
| | 2,383 | 1,786 |

The benefits of Management Board include amount of EUR 8 thousand (2016: EUR 47 thousand) for private spending of members charged to the Group.

## 28. CONTINGENCIES

**Legal and regulatory cases**
On 17 October 2014 the European Commission sent an infringement decision to the Company in case AT 39.523 (hereinafter "the Decision"). The Decision found the Company (and DT AG, as parent company) liable for breach of competition law (margin squeeze and refusal to deal) in relation to ULL for the period 12 August 2005 – 31 December 2010 and imposed a fine of EUR 38,838 thousand on DT AG and the Company, jointly and severally. On 26 December 2014 the Company filed an appeal against the Decision to the General Court of the European Union. The fine was paid by the Company in January 2015.

Following the European Commission's decision, three competitors of the Company filed action against Slovak Telekom with the civil court in Bratislava in 2015, one of the claimants withdrew its action in 2017. Another damage claim action was filed in 2017. These claims seek compensation for damages allegedly incurred due to Company's abuse of its dominant market position, as determined by the European Commission and amount to EUR 174,008 thousand plus interest. Other competitors that believe they have been harmed by the Company anti-competitive conduct during the infringement period may decide to file actions for damages as well.

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

In 2013, two competitors filed actions against Company seeking damages allegedly incurred due to Company's conduct as determined by the AMO, third competitor filed similar action in 2015. The claimants contend that they incurred lost profit amounting to EUR 137,667 thousand plus interest. All three proceedings before the first instance District Court Bratislava II are currently suspended pending the outcome of judicial review of the underlying AMO decisions. In one of the proceedings the claimant filed a motion to resume proceedings.

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

As at 31 December 2017, the Group recognised provision for known and quantifiable risks related to proceedings against the Group, which represent the Group's best estimate of the amounts, which are more likely than not to be paid. The actual amounts of penalties, if any, are dependent on a number of future events the outcome of which is uncertain, and, as a consequence, the amount of provision may change at a future date.

## 29. AUDIT FEES

In 2017 the Group obtained from the audit company PricewaterhouseCoopers Slovensko, s.r.o. audit services in amount of EUR 349 thousand (2016: EUR 307 thousand), tax advisory services in amount of EUR 4 thousand and other non-audit services in amount of EUR 548 thousand (2016: EUR 80 thousand).

## 30. EVENTS AFTER THE REPORTING PERIOD

On 25 January 2018 the subsidiary of Slovak Telekom PosAm acquired 100% share in the company Commander Services s.r.o. for consideration of EUR 5,000 thousand. Main activity of the new subsidiary is GPS monitoring of the motor vehicles.

The financial effects of this transactions have not been recognised at 31 December 2017. The operating results and assets and liabilities of the acquired company will be consolidated from the date of acquisition.

**Purchase consideration**
Details of the consideration transferred are:

| thousands of EUR | 2018 |
|---|---|
| Cash paid | 3,507 |
| Contingent consideration | 1,493 |
| | 5,000 |

The provisionally determined non-audited values of the assets and liabilities of Commander Services s.r.o. as at the date of acquisition are as follows:

| thousands of EUR | |
|---|---|
| Cash and cash equivalents | 339 |
| Property, plant and equipment | 407 |
| Inventories | 400 |
| Receivables and other assets | 640 |
| Payables and other liabilities | (520) |
| Identifiable net assets acquired | 1,266 |
| Add: goodwill | 3,734 |
| Net assets acquired | 5,000 |

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

**Contingent consideration**
Contingent consideration of EUR 1,493 thousand shall be paid in 3 instalments. First instalment of EUR 493 thousand shall be paid not later than 2 months from closing date and shall be adjusted for net cash/debt and change in working capital. Second instalment of EUR 750 thousand and third instalment of EUR 250 thousand shall be paid not later than 12 resp. 24 months from closing date and will be adjusted for materialised risks and for financial performance in financial years 2018 and 2019 respectively (Revenues and Cash contribution targets).

**Information not disclosed as not yet available**
At the time the financial statements were authorised for issue, the Group had not yet completed the accounting for the acquisition of Commander Services s.r.o. In particular, the fair values of the assets and liabilities disclosed above have only been determined provisionally as the independent valuations have not been finalised. It is also not yet possible to provide detailed information about each class of acquired receivables and any contingent liabilities of the acquired entity.

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 2017.

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 2017

## CONTENTS

# INDEPENDENT AUDITOR'S REPORT

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## *Independent Auditor's Report*

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

### *Our opinion*

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of Slovak Telekom, a.s. (the "Company") as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

**What we have audited**

The Company's separate financial statements comprise:

- the separate statement of financial position as at 31 December 2017;
- the separate income statement and separate statement of comprehensive income for the year then ended;
- the separate statement of changes in equity for the year then ended;
- the separate statement of cash flows for the year then ended; and
- the notes to the separate financial statements, which include significant accounting policies and other explanatory information.

### *Basis for opinion*

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

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

**Independence**

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

### *Emphasis of Matter*

Without qualifying our opinion, we draw attention to Note 29 to these separate financial statements, which describe the infringement decisions of the European Commission and Antimonopoly Office of the Slovak Republic against the Company and the implications thereof. The ultimate outcome of the related proceedings cannot presently be determined.

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

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

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## Reporting on other information in the annual report

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

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

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

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

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

- the information given in the annual report for the year ended 31 December 2017 is consistent with the separate financial statements; and
- the annual report has been prepared in accordance with the Accounting Act.

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

## Management's responsibilities for the separate financial statements

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

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

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

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

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

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

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

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

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

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

Mgr. Marián Mihaľo
UDVA licence No. 1187

Bratislava, 15 March 2018

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

# INCOME STATEMENT

## FOR THE YEAR ENDED 31 DECEMBER

| thousands of EUR | Notes | 2017 | 2016 |
|---|---|---|---|
| **Revenue** | 4 | 684,036 | 701,876 |
| Staff costs | 5 | (114,023) | (112,829) |
| Material and equipment | | (85,496) | (93,859) |
| Depreciation, amortisation and impairment losses | 11, 12 | (174,621) | (171,078) |
| Interconnection and other fees to operators | | (54,721) | (72,550) |
| Other operating income | 6 | 19,119 | 20,882 |
| Other operating costs | 7 | (172,243) | (188,726) |
| **Operating profit** | | 102,051 | 83,716 |
| Financial income | 8 | 1,460 | 3,089 |
| Financial expense | 9 | (920) | (709) |
| **Net financial result** | | 540 | 2,380 |
| **Profit before tax** | | 102,591 | 86,096 |
| Income tax expense | 10 | (35,954) | (24,864) |
| **Profit for the year** | | 66,637 | 61,232 |

The financial statements on pages 73 to 110 were authorised for issue on behalf of the Board of Directors of the Company on 15 March 2018 and signed on their behalf by:

Ing. Miroslav Majoroš
Chairman of the Board of Directors

Darja A. Dodonova
Member of the Board of Directors

# STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

| thousands of EUR | Notes | 2017 | 2016 |
|---|---|---|---|
| **Profit for the year** | | 66,637 | 61,232 |
| **Other comprehensive income** | | | |
| Loss on remeasurement of available-for-sale investments | 18 | - | (9) |
| **Other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax** | | - | (9) |
| Loss on remeasurement of defined benefit plans | 23 | (533) | (1,177) |
| Deferred tax income | 10 | 112 | 228 |
| **Other comprehensive income not to be reclassified to profit or loss in subsequent periods, net of tax** | | (421) | (949) |
| **Other comprehensive income for the year, net of tax** | | (421) | (958) |
| **Total comprehensive income for the year, net of tax** | | 66,216 | 60,274 |

# STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER

| thousands of EUR | Notes | 2017 | 2016 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property and equipment | 11 | 714,929 | 731,096 |
| Intangible assets | 12 | 256,436 | 278,814 |
| Investments in subsidiaries | 14 | 69,158 | 69,098 |
| Other receivables | 15 | 1,634 | 1,240 |
| Prepaid expenses and other assets | 16 | 13,555 | 13,091 |
| | | 1,055,712 | 1,093,339 |
| **Current assets** | | | |
| Inventories | 17 | 15,904 | 16,230 |
| Term deposits | 19 | 6,336 | 4,422 |
| Loans | 20 | 183,000 | 180,000 |
| Trade and other receivables | 15 | 102,930 | 104,610 |
| Prepaid expenses and other assets | 16 | 8,082 | 11,250 |
| Cash and cash equivalents | 21 | 49,615 | 36,959 |
| | | 365,867 | 353,471 |
| **TOTAL ASSETS** | | 1,421,579 | 1,446,810 |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' equity** | | | |
| Issued capital | 22 | 864,113 | 864,113 |
| Statutory reserve fund | 22 | 172,823 | 172,823 |
| Other | | (2,833) | (2,350) |
| Retained earnings and profit for the year | | 66,637 | 61,232 |
| | | 1,100,740 | 1,095,818 |
| **Non-current liabilities** | | | |
| Deferred tax | 10 | 80,905 | 89,393 |
| Provisions | 23 | 32,047 | 26,106 |
| Other payables | 24 | 2,730 | 5,440 |
| Other liabilities and deferred income | 25 | 5,362 | 3,208 |
| | | 121,044 | 124,147 |
| **Current liabilities** | | | |
| Provisions | 23 | 4,392 | 32,062 |
| Trade and other payables | 24 | 127,357 | 127,342 |
| Other liabilities and deferred income | 25 | 65,788 | 64,441 |
| Current income tax liability | | 2,258 | 3,000 |
| | | 199,795 | 226,845 |
| **Total liabilities** | | 320,839 | 350,992 |
| **TOTAL EQUITY AND LIABILITIES** | | 1,421,579 | 1,446,810 |

# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER

| thousands of EUR | Notes | Issued capital | Statutory reserve fund | Other | Retained earnings | Total equity |
|---|---|---|---|---|---|---|
| **Year ended 31 December 2016** | | | | | | |
| At 1 January 2016 | | 864,113 | 172,823 | (1,401) | 69,744 | 1,105,279 |
| Profit for the year | | - | - | - | 61,232 | 61,232 |
| Other comprehensive income | | - | - | (958) | - | (958) |
| Total comprehensive income | | - | - | (958) | 61,232 | 60,274 |
| Transactions with shareholder: | | | | | | |
| Other changes in equity | | - | - | 9 | - | 9 |
| Dividends | 22 | - | - | - | (69,744) | (69,744) |
| At 31 December 2016 | | 864,113 | 172,823 | (2,350) | 61,232 | 1,095,818 |
| **Year ended 31 December 2017** | | | | | | |
| At 1 January 2017 | | 864,113 | 172,823 | (2,350) | 61,232 | 1,095,818 |
| Profit for the year | | - | - | - | 66,637 | 66,637 |
| Other comprehensive income | | - | - | (421) | - | (421) |
| Total comprehensive income | | - | - | (421) | 66,637 | 66,216 |
| Transactions with shareholder: | | | | | | |
| Other changes in equity | | - | - | (62) | - | (62) |
| Dividends | 22 | - | - | - | (61,232) | (61,232) |
| At 31 December 2017 | | 864,113 | 172,823 | (2,833) | 66,637 | 1,100,740 |

# STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED 31 DECEMBER

| thousands of EUR | Notes | 2017 | 2016 |
|---|---|---|---|
| **Operating activities** | | | |
| **Profit for the year** | | 66,637 | 61,232 |
| Adjustments for: | | | |
| Depreciation, amortisation and impairment losses | 11, 12 | 174,621 | 171,078 |
| Interest income, net | | (874) | (865) |
| Income tax expense | 10 | 35,954 | 24,864 |
| Gain on disposal of property and equipment and intangible assets | 6 | (349) | (944) |
| Dividend income from subsidiaries | 8, 28 | (563) | (874) |
| Other non-cash items | | 6,588 | 1,751 |
| Movements in provisions | 23 | (27,115) | 24,392 |
| Changes in working capital: | | | |
| Change in trade and other receivables | | (770) | (15,455) |
| Change in inventories | | (250) | (5,683) |
| Change in trade and other payables | | 3,849 | 10,993 |
| **Cash flows from operations** | | 257,728 | 270,489 |
| Income taxes paid | | (45,073) | (32,272) |
| **Net cash flows from operating activities** | | 212,655 | 238,217 |
| **Investing activities** | | | |
| Purchase of property and equipment and intangible assets | 11, 12 | (122,260) | (114,878) |
| Proceeds from disposal of property and equipment and intangible assets | | 1,611 | 5,448 |
| Dividends received | 8, 28 | 563 | 874 |
| Increase of issued capital in subsidiary | 14 | (60) | - |
| Proceeds from disposal of available-for-sale investments | 18 | - | 35,057 |
| Disbursement of loans | | (200,000) | (185,000) |
| Repayment of loans | | 197,000 | 50,000 |
| Acquisition of term deposits | | (9,074) | (4,262) |
| Termination of term deposits | | 6,469 | 31,430 |
| Interest received | | 170 | 1,319 |
| Other charges paid for investing activities | | (185) | - |
| **Net cash flows used in investing activities** | | (125,766) | (180,012) |
| **Financing activities** | | | |
| Dividends paid | 22 | (61,232) | (69,744) |
| Repayment of financial payables | 24 | (12,977) | (11,900) |
| Other charges paid for financing activities | | (24) | (69) |
| **Net cash used in financing activities** | | (74,233) | (81,713) |
| Net increase / (decrease) in cash and cash equivalents | | 12,656 | (23,508) |
| Cash and cash equivalents at 1 January | 21 | 36,959 | 60,467 |
| **Cash and cash equivalents at 31 December** | 21 | 49,615 | 36,959 |

# 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 Bajkalská 28, 817 62 Bratislava. The business registration number (IČO) of the Company is 35 763 469 and the tax identification number (DIČ) is 202 027 3893. For shareholders overview of the Company refer to Note 22.

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

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

**Members of the Statutory Boards at 31 December 2017**

## BOARD OF DIRECTORS

**Chairman:**
- Ing. Miroslav Majoroš

**Vice-chairman:**
- Kerstin Günther (until 10 February 2017)
- Guido Manfred Menzel (since 10 February 2017)

**Member:**
- Franco Musone Crispino (until 10 February 2017)
- Darja A. Dodonova (since 10 February 2017)

## SUPERVISORY BOARD

**Chairman:**
- Dr. Hans-Peter Schultz

**Members:**
- Ing. Denisa Herdová
- Miriam Kvočková (until 22 June 2017)
- Dr. Henning Never
- Ing. Drahoslav Letko
- Konstantina Bata
- Lamia Tewaag (until 20 September 2017)

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

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

# 2. ACCOUNTING POLICIES

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

## 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 2017 have been prepared in compliance with International Financial Reporting Standards and IFRIC interpretations as adopted by the European Union. The consolidated financial statements are available at the Company's registered office, on the internet page of the Company and in the public administration information system (the Register) administered by the Ministry of Finance of the Slovak Republic.

## 2.2 Property and equipment

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

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

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included within other operating income or costs in the income statement in the period in which the asset is derecognised. Net disposal proceeds consist of both cash consideration and the fair value of non-cash consideration received.

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

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

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

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

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

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

## 2.3 Intangible assets

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

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

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

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

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

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

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

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

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

**Goodwill**

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

### 2.4 Investments in subsidiaries

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

### 2.5 Impairment of non-financial assets

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

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

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

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

## 2.6 Inventories

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

Some terminal equipment, in particular phone sets, is often sold for less than cost in connection with promotions to obtain new subscribers with minimum commitment periods. Such loss on the sale of equipment is recorded upon customer acquisition or retention within material and equipment costs in the income statement. Phone set inventory impairment allowances are recognised immediately when the phone sets are no longer marketable to secure subscriber contractual commitment or if the resale value on a standalone basis (without the subscriber commitment) is lower than cost.

## 2.7 Cash and cash equivalents

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

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

## 2.8 Financial assets

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

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

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

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables are detailed in Note 3.6.

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

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

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

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

## 2.9 Impairment of financial assets

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

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

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

## 2.10 Financial liabilities

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

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

## 2.11 Prepaid expenses

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

## 2.12 Provisions and contingent liabilities

Provisions for asset retirement obligations, restructuring costs and legal and regulatory claims are recognised when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

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

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

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

## 2.13 Employee benefit obligations

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

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

The Company also provides defined retirement and jubilee benefit plans granting certain amounts of pension or jubilee payments that an employee will receive on retirement, usually dependant on one or more factors such as an age, years of service and compensation. These benefits are unfunded. The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The last calculation was prepared on 31 December 2017. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using discount rate of weighted-average yields for high-quality (Bloomberg Aa*) - non-cancellable, non-putable corporate bonds. The currency and term of the bonds are broadly consistent with the currency and estimated term of the benefit obligations. Past service costs are recognised immediately in income statement. Remeasurement gains and losses arising from experience-based adjustments and changes in actuarial assumptions are recognised in the period in which they occur within other comprehensive income for retirement benefits and within the income statement for jubilee benefits. Current service cost, past service cost and curtailment gain are included within wages and salaries under staff costs. Interest costs are included within financial expense.

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

## 2.14 Revenue recognition

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

The Company recognises revenue as follows:

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

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

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

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

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

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

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

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

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

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

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

## 2.15 Leases

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

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

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

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

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

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

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

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

### 2.16 Operating profit

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

### 2.17 Foreign currency translation

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

### 2.18 Taxes

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

**Current income tax**
Current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted as of the statement of financial position date. Current income tax includes additional levy imposed by the Slovak government on regulated industries effective from 1 September 2012. From 2017, the levy of 8.712% per annum is applied on the basis calculated as the profit before tax determined in accordance with the Slovak Accounting Standards multiplied by ratio of regulated revenues (according to Act on Electronical Communications Nr. 351/2011) on total revenues. Until 2016 levy of 4.356% per annum was 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 recognised 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 nor taxable profit or loss.

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

### 2.19 Significant accounting judgements, estimates and assumptions

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

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

**Useful lives of non-current assets**

The estimation of the useful lives of non-current assets is a matter of judgement based on the Company's experience with similar assets. The Company reviews the estimated remaining useful lives of non-current assets annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the depreciation or amortisation period, as appropriate, and are treated as changes in accounting estimates. Management's estimates and judgements are inherently prone to inaccuracy, in particular for those assets for which no previous experience exists.

The Company reviewed useful lives of non-current assets during 2017 and changed accounting estimates where appropriate. The table summarizes net (increase) or decrease in depreciation or amortisation charge for the following categories of non-current assets:

| thousands of EUR | 2017 | 2018 | 2019 | 2020 | 2021 and after |
|---|---|---|---|---|---|
| Telecommunications equipment | (485) | (116) | 182 | 122 | 297 |
| Radio and transmission equipment | (126) | 35 | 25 | 16 | 50 |
| Supporting technology | (533) | 41 | 45 | 41 | 406 |
| Other | (1,586) | 390 | 334 | 295 | 567 |
| | (2,730) | 350 | 586 | 474 | 1,320 |

**Customer relationships**

The Company maintains record of customer relationships obtained during the acquisition of control of T-Mobile and recognised at the merger (Note 12) and regularly evaluates appropriateness of useful lives used to amortise these intangible assets on the basis of churn of customers acquired through the business combination. No changes to useful lives were necessary in 2017.

**Activation fees and subscriber acquisition and retention costs**

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

**Assessment of impairment of goodwill**

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

**Asset retirement obligation**

The Company enters into lease contracts for land and premises on which mobile communication network masts are sited. The Company is committed by these contracts to dismantle the masts and restore the land and premises to their original condition. Management anticipates the probable settlement date of the obligation to equal useful life of mast, which is estimated to be 50 years. The remaining useful life of masts ranges from 25 to 50 at 31 December 2017.

Management's determination of the amount of the asset retirement obligation (Note 23) involves the following estimates (in addition to the estimated timing of crystallisation of the obligation):

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

If the economic useful life of the masts was shortened by 10 years (from 50 years to 40 years) it would cause an increase of asset retirement obligation by EUR 2,240 thousand. If the inflation rate increased by 0.5%, it would cause an increase of asset retirement obligation by EUR 3,555 thousand. If the risk-adjusted, pre-tax discount rate increased by 0.5%, it would cause a decrease of asset retirement obligation by EUR 2,926 thousand. If the amounts necessary to settle future obligations increased by 10%, it would cause an increase of asset retirement obligation by EUR 1,748 thousand.

**Provisions and contingent liabilities**
The Company is a participant in several lawsuits and regulatory proceedings. When considering the recognition of a provision, management judges the probability of future outflows of economic resources and its ability to reliably estimate such future outflows. If these recognition criteria are met a provision is recorded in the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Such judgments and estimates are continually reassessed taking into consideration the developments of the legal cases and proceedings and opinion of lawyers and other subject matter experts involved in resolution of the cases and proceedings. The factors considered for individual cases are described in Notes 23 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) Liabilities in amount of EUR 896 thousand are presented in current Other liabilities and deferred income in this statement of financial position of 2016 comparatives. In 2016 financial statements these liabilities were presented in current Trade and other payables.

Reclassification of balances had no impact on balances in the statement of financial position as of 1 January 2016; therefore no opening statement of financial position as at 1 January 2016 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 2017**

- Amendments to IAS 12 - Recognition of Deferred Tax Assets for Unrealised Losses, issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017.

  The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains.

- Amendments to IAS 7 (Disclosure Initiative) issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017.

  The amendments come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The adopted standards and amendments do not have material impact on the Company's financial statements.

**Standards, interpretations and amendments to published standards that have been published, are not effective for accounting periods starting on 1 January 2017 and which the Company has not early adopted**

- IFRS 9 Financial Instruments, issued in July 2014 and effective for annual periods beginning on or after 1 January 2018.

  The package of improvements introduced by the Standard IFRS 9 issued in November 2009 and amended in October 2010, December 2011, November 2013 and July 2014 includes a model for classification and measurement, a single, forward-looking "expected loss" impairment model and substantially-reformed approach to hedge accounting.

  - Classification and Measurement: Classification determines how financial assets and liabilities are accounted for in financial statements and, in particular, how they are measured on an ongoing basis. IFRS 9 introduces an approach for the classification of financial assets, which is driven by cash characteristics and the business model in which an assets is held.
    As a result of the analysis of financial assets and liabilities conducted by the Company, there is no change in classification of the instruments with adoption of IFRS 9, and therefore no impact on the retained earnings.

Instruments classified as Loans and Receivables under IAS 39 will be classified at Amortised cost under IFRS 9. Based on the management intention of the Company, the business model for all debt instruments is to hold the financial asset and collect contractual cash flows as opposed to realising its fair value change from sale prior to its contractual maturity. Occasional sales occur only for overdue receivables for which recovery of the claim by dedicated external agencies is unsuccessful. These sales do not contradict the objective of the business model. Concerning contractual cash flow characteristics, we have not identified any feature that would be inconsistent with SPPI criterion, therefore all debt instruments in the Company qualify for amortised cost measurement.
Derivatives remain measured at fair value through profit or loss.

- Impairment: Standard introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the Standard requires entities to account for expected credit losses rather than only incurred credit losses as is the case under IAS 39.
  Based on the assessment undertaken, the Company expects an increase in the loss allowance for trade debtors by approximately EUR 3 million in relation to debt investments held at amortised cost. A deferred tax liability will be decreased by EUR 0.6 million as a consequence and the net impact on retained earnings will be EUR 2.4 million.
  Impact from application of an impairment model to contract assets under IFRS 15 Revenue from Contracts with Customers will not be material.
- Hedge accounting: IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements. The Company does not use hedge accounting, and there is no intention to use it in the nearest future.

The Company will apply the standard on 1 January 2018. The cumulative effect arising from the transition will be recognised as an adjustment to the opening balance of equity in the year of initial application.

Prior-year comparatives will not be restated; instead, the Company will provide an explanation of the reasons for the changes in items  in the statement of financial position and the income statement for the current period as a result of applying IFRS 9 for the first time.

- IFRS 15 Standard on the recognition of revenue from contracts with customers, issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018. The new standard will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard has a material effect on the presentation of Company's results of operations and financial position.

  Depending on the business model applied, the new provisions address the following issues with material impact in particular:

  - In the case of multiple-element arrangements (e.g. mobile contract plus handset) with subsidised products delivered in advance, a larger portion of the total consideration is attributable to the component delivered in advance (mobile handset), requiring earlier recognition of revenue. This leads to the recognition of what is known as a contract asset – a receivable arising from the customer contract that has not yet legally come into existence – in the statement of financial position.
    At the same time, this will generally lead to higher revenue from the sale of goods and merchandise and to lower revenue from the provision of services.
    The scope of the changes resulting from the initial application of IFRS 15 that are described above therefore largely depends on the business models used by the Company.
    The Company estimates that contract asset will have to be recognised in the amount approximately EUR 46 million, deferred tax liability increased by EUR 9 million and retained earnings increased by EUR 37 million on 1 January 2018.
  - Future capitalisation and allocation of the expenses for sales commissions (customer acquisition costs) over the estimated customer retention period. Increase in total assets on initial application due to the capitalisation of contract assets and customer acquisition costs.
    The Company estimates that contract asset will have to be recognised in the amount approximately EUR 21 million, deferred tax liability increased by EUR 4 million and retained earnings increased by EUR 17 million on 1 January 2018.
  - Deferral, i.e., later recognition of revenue in cases where "material rights" are granted, such as offering additional discounts for future purchases of further products.
    The Company estimates that there will not be any material impact from material rights on 1 January 2018.
  - When discounts on service fee are granted unevenly for specific months of a contract while monthly service is provided evenly to the customer, service revenue shall be recognised on a straight-lined basis.
    The Company estimates that contract asset will have to be recognised in the amount approximately EUR 3 million, deferred tax liability increased by EUR 1 million and retained earnings increased by EUR 2 million on 1 January 2018.
  - Some one-time fees (mainly connection/activation fees which are generally paid at contract inception) not fulfil definition of a separate performance obligation but represent a prepayment on future services.

  As an impact of this the Company estimates that contract liability will have to be recognised in the amount approximately EUR 5 million, deferred tax liability decreased by EUR 1 million and retained earnings decreased by EUR 4 million on 1 January 2018.
- The advanced payments for post-paid services lead to recognition of contract liability which is derecognised appropriately to the minimum contract term.
  The Company estimates that contract liability will have to be recognised in the amount approximately EUR 14.6 million and deferred income decreased by the same amount on 1 January 2018.
- For the purposes of determining whether the Company sells products for its own account (principal = gross revenue) or for the account of others (agent = net revenue), it is unlikely there will be any material changes.

The Company will utilise the option for simplified initial application, i.e. contracts that are not completed by 1 January 2018 will be accounted for as if they had been recognised in accordance with IFRS 15 from the very beginning. The cumulative effect arising from the transition is estimated to be approximately EUR 69 million and will be recognised as an adjustment to the opening balance of equity in the year of initial application. Analysis is still ongoing and the estimated impact may be changed.

Prior-year comparatives will not be restated; instead, the Company will provide an explanation of the reasons for the changes in items in the statement of financial position and the income statement for the current period as a result of applying IFRS 15 for the first time.

- IFRS 16 Standard on the recognition, measurement, presentation and disclosure of leases, issued on 13 January 2016 and effective for the periods beginning on or after 1 January 2019. Depending on the business model applied, the new provisions address the following issues in particular:

  - Whereas previously there was a requirement to disclose payment obligations for operating leases in the notes to the financial statements, from now on, the resulting rights and obligations must be recognised as rights of use and lease liabilities in the statement of financial position.
  - The Company anticipates a significant increase in total assets on first-time adoption on account of the increase in lease liabilities as well as a similarly high increase in non-current assets due to the right-of-use assets to be capitalised. The increase in lease liabilities leads to a corresponding increase in net debt.
  - Going forward, depreciation charges and interest expense will be reported in the income statement instead of lease expense. This will give rise to a significant improvement in EBITDA and to a similar increase in the net cash from operating activities reported in the statement of cash flows.
  - For the Company as a lessor, the new definition of a lease may affect the number of items to be accounted for as leases.

  The overall effects will be analysed as part of a project for implementing IFRS 16, though a reliable estimate of the quantitative effects is not possible until the project has been completed. For future minimum operating lease payments refer to Note 27.

## 3. FINANCIAL RISK MANAGEMENT

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

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

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

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

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

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 19).

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

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

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

| thousands of EUR | | 2017 | 2016 |
|---|---|---|---|
| Profit before tax | Depreciation of USD by 10% | (270) | 290 |
| | Appreciation of USD by 10% | 270 | (290) |
| Equity | Depreciation of USD by 10% | (214) | 227 |
| | Appreciation of USD by 10% | 214 | (227) |

#### 3.1.2 Interest rate risk

The Company's income and operating cash flows are substantially independent of changes in market interest rates. The Company entered into a master agreement with DT AG in October 2008 based on which the Company can provide loans to DT AG. Currently, there is outstanding loan in amount of EUR 183,000 thousand (2016: EUR 180,000 thousand) at fixed interest rate (Note 20). The term deposits in banks outstanding at 31 December 2017 in the amount of EUR 6,336 thousand (2016: EUR 4,422 thousand) have been concluded with fixed interest rate (Note 19).

#### 3.1.3 Other price risk

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

### 3.2 Credit risk

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

The Company is exposed to credit risk from its operating activities and certain financing activities. The Company's credit risk policy defines products, maturities of products and limits for financial counterparties. The Company limits credit exposure to individual financial institutions on the basis of the credit ratings assigned to these institutions by reputable rating agencies and these limits are reviewed on a regular basis. The Company is exposed to concentration of credit risk from holding loan receivable in the amount of EUR 183,000 thousand (2016: EUR 180,000 thousand) provided to DT AG (Germany).

For credit ratings see following tables:

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Term deposits (Note 19) | | |
| A2 | 6,336 | 4,422 |
| | 6,336 | 4,422 |

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Loans (Note 20) | | |
| Baa1 | 183,000 | 180,000 |
| | 183,000 | 180,000 |

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Cash and cash equivalents (Note 21) | | |
| Aa3 | 2 | - |
| A1 | - | 4 |
| A2 | 25,432 | 22,278 |
| A3 | 23,241 | - |
| Baa1 | 355 | 10,090 |
| Baa2 | - | 4,044 |
| Not rated | 585 | 543 |
| | 49,615 | 36,959 |

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

The Company establishes an allowance for impairment that represents its estimate of losses incurred in respect of trade and other receivables. Impairment losses are recognised to cover both individually significant credit risk exposures and a collective loss component for assets that are assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables includes the Company's past experience of collecting payments, as well as changes in the internal and external ratings of customers.

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

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

The table summarises the ageing structure of receivables:

| thousands of EUR | Neither past due nor impaired | Past due but not impaired < 30 days | 31-90 days | 91-180 days | 181-365 days | > 365 days | Impaired | Total |
|---|---|---|---|---|---|---|---|---|
| At 31 December 2017 | | | | | | | | |
| Trade and other receivables | 87,207 | 498 | 128 | 587 | 1,079 | 1,958 | 13,107 | 104,564 |
| | | | | | | | | |
| At 31 December 2016 | | | | | | | | |
| Trade and other receivables | 92,874 | 1,044 | 532 | 193 | 1,022 | 126 | 10,059 | 105,850 |

No significant individually impaired trade receivables were included in the allowance for impairment losses in 2017 and 2016.

Trade receivables that are past due as at 31 December 2017, 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. Management also believes that currently no additional impairment allowance is necessary to trade receivables that are neither past due nor impaired.

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

## 3.3 Liquidity risk

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

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

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

| thousands of EUR | On demand | Less than 3 months | 3 to 12 months | Over 1 year | Total |
|---|---|---|---|---|---|
| At 31 December 2017 | | | | | |
| Trade and other payables | 2,748 | 117,193 | 7,416 | 2,730 | 130,087 |
| | | | | | |
| At 31 December 2016 | | | | | |
| Trade and other payables | 6,020 | 114,303 | 7,019 | 5,440 | 132,782 |

The Company has granted credit limit to subsidiary DIGI SLOVAKIA, s.r.o. in amount of EUR 5,000 thousand with interest rate 1M Euribor + 1% margin. The limit was not used as at 31 December 2017.

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

| thousands of EUR | Gross amounts | Offsetting | Net amounts |
|---|---|---|---|
| At 31 December 2017 | | | |
| Current financial assets – Trade receivables | 7,294 | (4,896) | 2,398 |
| Current financial liabilities – Trade payables | 6,747 | (4,896) | 1,851 |
| | | | |
| At 31 December 2016 | | | |
| Current financial assets – Trade receivables | 13,982 | (6,951) | 7,031 |
| Current financial liabilities – Trade payables | 9,542 | (6,951) | 2,591 |

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

### 3.4 Capital management

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

The Company's management proposes to the owner of the Company (through the Board of Directors) to approve dividend payments or adopt other changes in the Company's equity capital in order to optimize the capital structure of the Company. This can be achieved primarily by adjusting the amount of dividends paid to shareholder, or alternatively, by returning capital to shareholder by capital reductions, issue new shares or sell assets to reduce debt. The Company also takes into consideration any applicable guidelines of the parent company. No changes were made to the objectives, policies or processes in 2017.

The capital structure of the Company consists of equity attributable to shareholder, comprising issued capital, statutory reserve fund, retained earnings and other components of equity (Note 22). The management of the Company manages capital measured in terms of shareholder's equity amounting to at 31 December 2017 EUR 1,100,740 thousand (2016: EUR 1,095,818 thousand).

### 3.5 Fair value

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

#### 3.5.1 Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. There were no recurring fair value measurements in 2017 and 2016.

#### 3.5.2 Non-recurring fair value measurements

There were no non-recurring fair value measurements in 2017 and 2016.

#### 3.5.3 Financial assets and financial liabilities not measured at fair value

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

### 3.6 Presentation of financial instruments by measurement category

Presentation of financial instruments by measurement category in accordance with IAS 39 is as follows:

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| ASSETS | | |
| Loans and receivables | | |
| Trade and other receivables (Note 15) | 104,564 | 105,850 |
| Term deposits (Note 19) | 6,336 | 4,422 |
| Loans (Note 20) | 183,000 | 180,000 |
| Cash and cash equivalents (Note 21) | 49,615 | 36,959 |
| | | |
| LIABILITIES | | |
| Financial liabilities at amortised cost | | |
| Trade and other payables (Note 24) | 130,087 | 132,782 |

## 4. REVENUE

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Fixed network revenue | 245,442 | 268,043 |
| Mobile network revenue | 333,263 | 332,778 |
| Terminal equipment | 33,280 | 33,090 |
| System solutions / IT | 42,697 | 36,496 |
| Other | 29,354 | 31,469 |
| | 684,036 | 701,876 |

## 5. STAFF COSTS

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Wages and salaries | 86,548 | 88,346 |
| Defined contribution pension costs | 12,596 | 11,593 |
| Other social security contributions | 14,879 | 12,890 |
| | 114,023 | 112,829 |

| | 2017 | 2016 |
|---|---|---|
| Number of employees at period end | 3,015 | 2,795 |
| Average number of employees during the period | 2,985 | 2,845 |

## 6. OTHER OPERATING INCOME

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Gain on disposal of property and equipment and intangible assets, net | 349 | 944 |
| Income from material sold, net | 897 | 829 |
| Income from rental of premises | 2,637 | 2,780 |
| Reversal of impairment of property and equipment (Note 11) | 423 | 2,024 |
| Income from marketing activities | 3,604 | 4,695 |
| Other | 11,209 | 9,610 |
| | 19,119 | 20,882 |

Line item “Other” includes reinvoicing of TV and employee related costs (content rights costs, satellite costs, access establishment) to subsidiary DIGI SLOVAKIA, s.r.o. in amount of EUR 6,786 thousand (2016: EUR 5,571 thousand).

## 7. OTHER OPERATING COSTS

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Repairs and maintenance | 15,445 | 17,507 |
| Installation services | 921 | 1,022 |
| Marketing costs | 15,684 | 18,075 |
| Energy | 12,741 | 13,051 |
| Printing and postage | 4,169 | 3,731 |
| Logistics | 4,586 | 4,596 |
| Rentals and leases | 18,638 | 18,029 |
| IT services | 6,675 | 6,725 |
| Dealer commissions | 18,811 | 20,107 |
| Frequency and other fees to Regulatory Authority | 4,757 | 4,700 |
| Content fees | 13,669 | 12,184 |
| Legal and regulatory claims (Note 23) | 17,904 | 25,480 |
| Consultancy | 1,510 | 3,487 |
| Bad debts expenses | 4,296 | 3,852 |
| Services related to delivery of solutions for customers | 30,017 | 26,745 |
| Fees paid to DT AG group | 4,733 | 4,919 |
| Other | 15,816 | 16,646 |
| Own work capitalised | (18,129) | (12,130) |
| | 172,243 | 188,726 |

## 8. FINANCIAL INCOME

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Dividends from subsidiaries (Note 28) | 563 | 874 |
| Reversal of impairment on investments at amortised cost | - | 402 |
| Gain on disposal of available-for-sale investments (Note 18) | - | 614 |
| Interest on term deposits and bank accounts | 140 | 72 |
| Interest on loans (Notes 20, 28) | 13 | 61 |
| Interest on available-for-sale investments | - | 13 |
| Interest from finance lease | 4 | 17 |
| Foreign exchange gains, net | - | 264 |
| Other | 740 | 772 |
| | 1,460 | 3,089 |

## 9. FINANCIAL EXPENSE

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Interest costs on employee benefits provision | 186 | 219 |
| Interest cost on other non-current provisions | 443 | 420 |
| Foreign exchange losses, net | 267 | - |
| Bank charges and other financial expense | 24 | 70 |
| | 920 | 709 |

## 10. TAXATION

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

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Current tax expense | 37,546 | 31,945 |
| Deferred tax income | (8,376) | (10,332) |
| Levy on regulated industries | 6,784 | 3,251 |
| Income tax expense reported in the income statement | 35,954 | 24,864 |

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 | 2017 | 2016 |
|---|---|---|
| Profit before income tax | 102,591 | 86,096 |
| Income tax calculated at the statutory rate of 21% (2016: 22%) | 21,544 | 18,941 |
| Effect of non-taxable income and tax non-deductible expenses: | | |
| Dividends | (118) | (192) |
| Cost related to legal and regulatory claims | 3,728 | 5,601 |
| Other tax non-deductible items, net | 1,128 | 1,732 |
| Tax charge / (tax refund) in respect of prior years | 2,888 | (212) |
| Levy on regulated industries | 6,784 | 3,251 |
| Effect of change in tax rate | - | (4,257) |
| Income tax at the effective tax rate of 35% (2016: 29%) | 35,954 | 24,864 |

Change of the income tax rate from 22% to 21%, effective from 1 January 2017, resulted in the decrease of the deferred tax liability of EUR 4,257 thousand with the positive effect on the tax expense of EUR 4,226 thousand and on the other comprehensive income of EUR 31 thousand.

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

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

| thousands of EUR | 1 January 2016 | Through income statement | Through statement of comprehensive income | 31 December 2016 |
|---|---|---|---|---|
| Difference between carrying and tax value of fixed assets | (117,199) | 12,709 | - | (104,490) |
| Allowance for investments at amortised cost | 2,270 | (2,270) | - | - |
| Staff cost accruals | 2,473 | (228) | - | 2,245 |
| Allowance for bad debts | 3,154 | (472) | - | 2,682 |
| Termination benefits | 977 | (62) | - | 915 |
| Retirement benefit obligation | 2,363 | (59) | 228 | 2,532 |
| Asset retirement obligation | 2,248 | 444 | - | 2,692 |
| Other | 3,761 | 270 | - | 4,031 |
| Net deferred tax liability | (99,953) | 10,332 | 228 | (89,393) |

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Deferred tax asset to be settled within 12 months | 11,010 | 10,242 |
| Deferred tax asset to be settled after more than 12 months | 6,821 | 5,662 |
| Deferred tax liability to be settled within 12 months | (894) | (808) |
| Deferred tax liability to be settled after more than 12 months | (97,842) | (104,489) |
| Net deferred tax liability | (80,905) | (89,393) |

## 11. PROPERTY AND EQUIPMENT

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

Property and equipment, excluding motor vehicles, is locally insured to a limit of EUR 25,000 thousand (2016: EUR 25,000 thousand). Any loss exceeding local limit is insured by DT AG Global Insurance Program up to EUR 700,000 thousand. The Company has the third party liability insurance for all motor vehicles.

| thousands of EUR | Land, buildings and structures | Duct, cable and other outside plant | Telecommu-nications equipment | Radio and transmission equipment | Other | Capital work in progress including advances | Total |
|---|---|---|---|---|---|---|---|
| At 1 January 2016 | | | | | | | |
| Cost | 185,819 | 991,741 | 599,538 | 319,391 | 311,623 | 49,942 | 2,458,054 |
| Accumulated depreciation | (104,754) | (545,908) | (542,196) | (277,535) | (234,559) | (488) | (1,705,440) |
| Net book value | 81,065 | 445,833 | 57,342 | 41,856 | 77,064 | 49,454 | 752,614 |
| Additions | 3,028 | 9,878 | 3,477 | 6,398 | 7,558 | 48,648 | 78,987 |
| Depreciation charge | (3,550) | (34,911) | (18,199) | (16,406) | (24,455) | - | (97,521) |
| Impairment charge | (80) | (33) | (10) | - | (359) | - | (482) |
| Reversal of impairment | - | 1 | 1,934 | - | 52 | 37 | 2,024 |
| Disposals | (4,095) | (5) | (2) | - | (192) | (232) | (4,526) |
| Transfers | 994 | 5,296 | 6,934 | 12,969 | 15,912 | (42,105) | - |
| At 31 December 2016 | | | | | | | |
| Cost | 175,906 | 1,006,845 | 505,004 | 269,859 | 312,016 | 56,236 | 2,325,866 |
| Accumulated depreciation | (98,544) | (580,786) | (453,528) | (225,042) | (236,436) | (434) | (1,594,770) |
| Net book value | 77,362 | 426,059 | 51,476 | 44,817 | 75,580 | 55,802 | 731,096 |

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Additions | 82,684 | 78,987 |
| Non-cash additions from asset retirement obligation | (4,224) | (2,186) |
| Change in payables for purchase of property and equipment | 2,707 | 1,910 |
| Cash used for purchase of property and equipment from investing activities | 81,167 | 78,711 |

## 12. INTANGIBLE ASSETS

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

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

| thousands of EUR | Software | Licences | Internally developed intangible assets | Goodwill | Customer relationships | Intangibles under construction | Total |
|---|---|---|---|---|---|---|---|
| At 1 January 2016 | | | | | | | |
| Cost | 443,033 | 223,422 | 4,077 | 73,313 | 265,612 | 24,902 | 1,034,359 |
| Accumulated amortisation | (404,708) | (100,823) | (1,716) | - | (227,222) | - | (734,469) |
| Net book value | 38,325 | 122,599 | 2,361 | 73,313 | 38,390 | 24,902 | 299,890 |
| Additions | 17,988 | 17,135 | 168 | - | - | 16,709 | 52,000 |
| Amortisation charge | (32,557) | (21,050) | (273) | - | (19,195) | - | (73,075) |
| Disposals | - | - | - | - | - | (1) | (1) |
| Transfers | 12,331 | 5 | 469 | - | - | (12,805) | - |
| At 31 December 2016 | | | | | | | |
| Cost | 466,813 | 227,551 | 4,714 | 73,313 | 249,532 | 28,805 | 1,050,728 |
| Accumulated amortisation | (430,726) | (108,862) | (1,989) | - | (230,337) | - | (771,914) |
| Net book value | 36,087 | 118,689 | 2,725 | 73,313 | 19,195 | 28,805 | 278,814 |

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Additions | 54,052 | 52,000 |
| Additions paid from financing activities (Note 24) | (10,504) | (17,728) |
| Change in payables for purchase of intangible assets | (2,455) | 1,895 |
| Cash used for purchase of intangible assets from investing activities | 41,093 | 36,167 |

## 13. IMPAIRMENT OF GOODWILL

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| T-Mobile | 73,313 | 73,313 |
| | 73,313 | 73,313 |

The goodwill previously recognised at the acquisition of T-Mobile was recognised in the separate statement of the financial position of the Company on the merger on 1 July 2010. The recoverable amount of the cash-generating unit was determined using cash flows projections based on the ten-year financial plans that present the management's best estimate on market participants' assumptions and expectations. The Company uses ten-year cash flow projections as the payback period of the investments in the telecommunications operations often exceeds 5 years. Cash flows beyond the ten-year period are extrapolated using a 1.5% growth rate (2016: 1.5%) and a discount rate of 5.49% (2016: 5.31%). The growth rate does not exceed the long-term average growth rate for the market in which the cash-generating unit operates. Further key assumptions on which management has based its determination of the recoverable amount of cash-generating unit include the development of revenue, customer acquisition and retention costs, churn rates, capital expenditures and market share. The recoverable amount of the cash-generating unit based on fair value less costs of disposal calculation exceeded its carrying value. Management believes that any reasonably possible change in the key assumptions on which the cash-generating unit's recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

## 14. INVESTMENTS IN SUBSIDIARIES

At 31 December 2017 the Company held the following investments in fully consolidated direct subsidiaries:

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

| thousands of EUR | Share and voting rights | Cost of investment 2017 | Cost of investment 2016 | Profit / (loss) 2017 | Profit / (loss) 2016 | Net assets 2017 | Net assets 2016 |
|---|---|---|---|---|---|---|---|
| DIGI SLOVAKIA, s.r.o. | 100% | 52,362 | 52,362 | 5,024 | 5,824 | 20,569 | 15,546 |
| PosAm, spol. s r.o. | 51% | 12,968 | 12,968 | 1,631 | 2,209 | 12,851 | 12,324 |
| Zoznam, s.r.o. | 100% | 2,346 | 2,346 | 263 | 160 | 2,760 | 2,497 |
| Zoznam Mobile, s.r.o. | 100% | 1,410 | 1,410 | (95) | 17 | 413 | 507 |
| Telekom Sec, s.r.o. | 100% | 72 | 12 | (2) | (2) | 58 | - |
| | | 69,158 | 69,098 | | | | |

Financial data for subsidiaries are based on their separate financial statements. At the date of authorisation of these separate financial statements for issue, the approved financial statements of subsidiaries for the year ended 31 December 2017 were not available. The table is prepared based on their non-approved draft financial statements.

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

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

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

## 15. TRADE AND OTHER RECEIVABLES

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Non-current | | |
| Receivables from instalment sale | 189 | 673 |
| Finance lease receivables | 1,445 | 567 |
| | 1,634 | 1,240 |
| Current | | |
| Trade receivables | 101,600 | 103,544 |
| Other receivables | 523 | 422 |
| Finance lease receivables | 807 | 644 |
| | 102,930 | 104,610 |

Trade receivables are net of an allowance of EUR 17,932 thousand (2016: EUR 17,564 thousand). If the allowance percentage increases by 1% in each relevant ageing group (except where there is 100% allowance created), the charge for the period would be by EUR 182 thousand higher (2016: EUR 155 thousand).

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

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| At 1 January | 17,564 | 19,288 |
| Charge for the year, net | 4,633 | 2,470 |
| Utilised | (4,265) | (4,194) |
| At 31 December | 17,932 | 17,564 |

## 16. PREPAID EXPENSES AND OTHER ASSETS

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Non-current | | |
| Easements | 9,207 | 9,560 |
| Subscriber acquisition costs | 2,440 | 1,842 |
| Other prepaid expenses | 1,908 | 1,689 |
| | 13,555 | 13,091 |
| Current | | |
| Subscriber acquisition costs | 1,660 | 1,753 |
| Other prepaid expenses | 3,863 | 3,753 |
| Other assets | 2,559 | 5,744 |
| | 8,082 | 11,250 |

## 17. INVENTORIES

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Materials | 5,711 | 7,068 |
| Goods | 10,193 | 9,162 |
| | 15,904 | 16,230 |

Inventories are net of an allowance of EUR 1,912 thousand (2016: EUR 1,747 thousand). The write-down of inventories in amount of EUR 576 thousand (2016: EUR 879 thousand) was recognised in cost of material and equipment.

## 18. AVAILABLE-FOR-SALE INVESTMENTS

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| At 1 January | - | 31,079 |
| Additions | - | 2,145 |
| Disposals | - | (33,065) |
| Amortisation of premium paid | - | (147) |
| Remeasurement recognised in other comprehensive income | - | (12) |
| At 31 December | - | - |

The Company held bank bond, which was until 2015 classified as an investment at amortised cost. The bond matured in 2008. In December 2015 the Composition Agreement between issuer of the bond and composition creditors came into effect. Following the Composition Agreement, the claim from the bond ceased to exist and the Company received at the beginning of 2016 entitlements from the Composition Agreement: cash payment in amount of EUR 1,378 thousand, the convertible notes with the nominal value of GBP 2,551 thousand and with maturity of 15 years and 11,214,318 pieces of the shares with the nominal value of ISK 11,214 thousand. The notes and shares were categorised as available-for-sale investments in 2016. The notes and shares were sold in December 2016 with the gain of EUR 614 thousand (Note 8).

Other available-for-sale investments comprised of state bonds, which matured in 2016. In 2016 the Company reclassified gain of EUR 9 thousand from other comprehensive income to income statement.

## 19. TERM DEPOSITS

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Term deposits in banks | 6,336 | 4,422 |
| | 6,336 | 4,422 |

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

## 20. LOANS

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Loans to Deutsche Telekom AG | 183,000 | 180,000 |
| | 183,000 | 180,000 |

The loans granted to Deutsche Telekom AG were not secured. Loans outstanding at 31 December 2017 were provided in December 2017 and were repayable in January 2018 (2016: provided during August to December 2016, repayable during January to March 2017). Interest on loans amounted to EUR 13 thousand (2016: EUR 61 thousand) (Notes 8, 28). For credit ratings see Note 3.2.

## 21. CASH AND CASH EQUIVALENTS

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Cash and cash equivalents | 49,615 | 36,959 |
| | 49,615 | 36,959 |

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

## 22. SHAREHOLDERS' EQUITY

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

As of 31 December 2017, Slovak Telekom had authorised and issued 86,411,300 ordinary shares (2016: 86,411,300) with a par value of EUR 10.00 per share (2016: EUR 10.00 per share). All the shares issued were fully subscribed.

The statutory reserve fund is set up in accordance with Slovak law and is not distributable. The reserve is created from retained earnings to cover possible future losses. In 2013, after the distribution of 2012 statutory profit, the statutory reserve fund reached the level required by the Slovak law and the Articles of Association of Slovak Telekom, a.s.

Category Other in the Statement of changes in equity covers changes of equity from retirement benefits (Note 23), available-for-sale investments (Note 18) and share-based payment plan.

The Financial statements of the Company for the year ended 31 December 2016 were authorised for issue on behalf of the Board of Directors of Slovak Telekom on 16 March 2017.

On 27 April 2017 Deutsche Telekom Europe B.V. while performing competences of the General meeting of Slovak Telekom approved distribution of the prior year profit in the form of dividends. Total dividends of EUR 61,232 thousand (2016: EUR 69,744 thousand) were paid in May 2017, which amounted to EUR 0.71 per share (2016: EUR 0.81 per share).

Approval of the 2017 profit distribution will take place at the Annual General Meeting scheduled for April 2018.

# 23. PROVISIONS

| thousands of EUR | Legal and regulatory claims | Asset retirement obligation | Termination benefits | Employee benefits | Other | Total |
|---|---|---|---|---|---|---|
| | (Note 29) | | | | | |
| At 1 January 2017 | 26,938 | 12,819 | 4,358 | 12,347 | 1,706 | 58,168 |
| Arising during the year | 646 | 868 | 1,542 | 1,332 | 890 | 5,278 |
| Utilised | (12,713) | - | (3,753) | (21) | (576) | (17,063) |
| Reversals | (371) | - | (606) | (338) | (48) | (1,363) |
| Transfers | (12,500) | - | - | - | (66) | (12,566) |
| Interest impact | - | 3,794 | - | 190 | 1 | 3,985 |
| At 31 December 2017 | 2,000 | 17,481 | 1,541 | 13,510 | 1,907 | 36,439 |
| | | | | | | |
| Non-current | - | 17,481 | - | 13,510 | 1,056 | 32,047 |
| Current | 2,000 | - | 1,541 | - | 851 | 4,392 |
| | 2,000 | 17,481 | 1,541 | 13,510 | 1,907 | 36,439 |

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| | | |
| Non-current | 32,047 | 26,106 |
| Current | 4,392 | 32,062 |
| | 36,439 | 58,168 |

**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 192 employees in 2017. The Company expects a further headcount reduction of 74 employees in 2018 as a result of an ongoing restructuring program. A detailed formal plan that specifies the number of staff involved and their locations and functions was defined and authorised by management and announced to the trade unions. The amount of compensation to be paid for terminating employment was calculated by reference to the collective agreement. The termination payments are expected to be paid within twelve months of the statement of financial position date and are recognised in full in the current period. In 2017 the Company recognised an expense resulting from termination benefits in amount of EUR 5,059 thousand (2016: EUR 3,714 thousand) in staff costs.

**Retirement and jubilee benefits**

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

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

| thousands of EUR | Retirement benefits | Jubilee | Total |
|---|---|---|---|
| Present value of the defined benefit obligation | | | |
| At 1 January 2016 | 10,739 | 284 | 11,023 |
| Current service cost | 704 | 18 | 722 |
| Interest cost | 219 | 6 | 225 |
| Benefits paid | (14) | (16) | (30) |
| Remeasurement of defined benefit plans | 1,177 | (2) | 1,175 |
| Curtailment gain | (768) | - | (768) |
| At 31 December 2016 | 12,057 | 290 | 12,347 |

Remeasurement of defined benefit plans related to retirement benefits in amount of EUR 533 thousand consists of experience adjustments in amount of EUR 624 thousand, partially netted by change in financial assumptions in amount of EUR 11 thousand and by change in demographic assumptions in amount of EUR 80 thousand.

The curtailment gain in amount of EUR 331 thousand resulted mainly from a reduction in the number of participants covered by the retirement plan that occurred in 2017 or was announced for 2018. There were no special events causing any new past service cost during 2017 other than the curtailment mentioned above.

Principal actuarial assumptions used in determining the defined benefit obligation and the curtailment effect in 2017 include the discount rate of 1.58% (2016: 1.56%). The expected expense for 2017 has been determined based on the discount rate as at the beginning of the accounting period of 1.56% (2016: 2.07%). Average retirement age is 62 years (2016: 62 years). The expected growth of nominal wages over the long term is 2.0% (2016: 2.0%) with minor adjustments for the first three years. The remaining weighted average duration of the defined benefit obligation is 13.3 years (2016: 13.0 years).

The sensitivity analysis for the significant actuarial assumptions as at 31 December 2017 and 2016 is as follows:

| thousands of EUR | (Decrease) / increase of employee benefits provision | |
|---|---|---|
| | 2017 | 2016 |
| Change of actuarial assumption: | | |
| Discount rate change +100 bp / -100 bp | (1,559) / 1,786 | (1,442) / 1,655 |
| Salary change +0.50% / -0.50% | 858 / (810) | 795 / (749) |
| Change in life expectation +1 year / -1 year | 16 / (18) | 14 / (15) |

## 24. TRADE AND OTHER PAYABLES

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Non-current | | |
| Financial payables | 2,132 | 5,440 |
| Finance lease payables | 62 | - |
| Other payables | 536 | - |
| | 2,730 | 5,440 |
| Current | | |
| Trade payables | 55,556 | 60,039 |
| Uninvoiced deliveries | 45,837 | 54,173 |
| Financial payables | 12,597 | 12,261 |
| Finance lease payables | 249 | - |
| Other payables | 13,118 | 869 |
| | 127,357 | 127,342 |

Reconciliation of cash used in financing activities:

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Financial payables at 1 January | 17,701 | 11,780 |
| Additions (Note 12) | 10,504 | 17,728 |
| Cash used in financing activities | (12,977) | (11,900) |
| Foreign exchange adjustments | (499) | 93 |
| Financial payables at 31 December | 14,729 | 17,701 |

## 25. OTHER LIABILITIES AND DEFERRED INCOME

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Non-current | | |
| Deferred income | 5,362 | 3,208 |
| | 5,362 | 3,208 |
| Current | | |
| Deferred income | 31,874 | 32,197 |
| Amounts due to employees | 19,887 | 18,719 |
| Other tax liabilities | 9,101 | 9,111 |
| Other liabilities | 4,926 | 4,414 |
| | 65,788 | 64,441 |

Amounts due to employees include social fund liabilities:

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| At 1 January | 82 | 37 |
| Additions | 1,462 | 1,419 |
| Utilisation | (1,454) | (1,374) |
| At 31 December | 90 | 82 |

## 26. COMMITMENTS

The Company's purchase commitments were as follows:

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Acquisition of property and equipment | 57,885 | 27,553 |
| Acquisition of intangible assets | 5,631 | 9,182 |
| Purchase of services and inventory | 100,694 | 70,393 |
| Guarantee to subsidiary | - | 2,100 |
| | 164,210 | 109,228 |

## 27. OPERATING LEASE – THE COMPANY AS LESSEE

The future minimum operating lease payments were as follows:

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Operating lease payments due within one year | 17,639 | 20,777 |
| Operating lease payments due between one and five years | 34,834 | 37,143 |
| Operating lease payments due after five years | 10,446 | 14,365 |
| | 62,919 | 72,285 |

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

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

## 28. RELATED PARTY TRANSACTIONS

| thousands of EUR | Receivables | | Payables | | Sales and income | | Purchases | | Commitments | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| DT AG | 187,759 | 188,019 | 8,070 | 8,635 | 3,986 | 5,077 | 8,709 | 6,732 | 168 | 2,403 |
| Subsidiaries | 3,557 | 5,090 | 1,703 | 4,805 | 9,161 | 8,364 | 6,997 | 7,440 | 340 | 445 |
| Other entities in DT AG group | 6,075 | 4,082 | 8,234 | 6,029 | 21,756 | 12,762 | 21,641 | 11,125 | 14,746 | 2,365 |
| | 197,391 | 197,191 | 18,007 | 19,469 | 34,903 | 26,203 | 37,347 | 25,297 | 15,254 | 5,213 |

The Company conducts business with its subsidiaries (DIGI, PosAm, Zoznam, Zoznam Mobile, Telekom Sec) as well as with its ultimate parent, Deutsche Telekom AG and its subsidiaries, associates and joint ventures. Business transactions relate mainly to telephone calls and other traffic in the related parties' networks. Other transactions include data services, management, consultancy, other services and purchases of fixed assets. The Company purchased fixed assets in amount of EUR 2,928 thousand (2016: EUR 2,833 thousand) from related parties.

In 2017 the Company granted Deutsche Telekom AG a short-term loan of EUR 183,000 thousand (2016: EUR 180,000 thousand). Interest related to the loan amounted to EUR 13 thousand (2016: EUR 61 thousand) (Notes 8, 20).

In March 2017 the General meeting of PosAm declared a dividend of EUR 563 thousand (2016: EUR 874 thousand), which was paid in March 2017 (Note 8). There was no dividend declared by other subsidiaries in 2017 and 2016.

In 2016 the Company signed an ICT contract with a duration of 80 months with T-Systems International GmbH ("TSI"). Within this contract, the Company acts as the main subcontractor for the restructuring of the Allianz communication network in the selected countries. DT AG Group entities in relevant countries are service providers for the Company. The total value of the contract amounts to EUR 41,537 thousand. In 2017 the Company recognised revenue with TSI in amount of EUR 4,829 thousand (2016: EUR 1,614 thousand), revenue with other DT AG Group entities in amount of EUR 274 thousand (2016: EUR 117 thousand) and expenses with other DT AG Group entities in amount of EUR 3,898 thousand (2016: EUR 1,250 thousand).

Deutsche Telekom as the ultimate parent company controlling Slovak Telekom is a related party to the Federal Republic of Germany. Slovak Telekom had no individually significant transactions with the Federal Republic of Germany or entities that it controls, jointly controls or where Federal Republic of Germany can exercise significant influence in either 2017 or 2016.

**Compensation of key management personnel**
The key management personnel as at 31 December 2017, 15 in number (2016: 16) include members of the Management Board, Board of Directors and Supervisory Board.

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

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Short term employee benefits | 2,316 | 1,748 |
| Defined contribution pension plan benefits | 52 | 31 |
| Share-based payment plan | 15 | 7 |
| | 2,383 | 1,786 |

| thousands of EUR | 2017 | 2016 |
|---|---|---|
| Management Board | 2,352 | 1,760 |
| Board of Directors | 15 | 7 |
| Supervisory Board | 16 | 19 |
| | 2,383 | 1,786 |

The benefits of Management Board include amount of EUR 8 thousand (2016: EUR 47 thousand) for private spending of members charged to the Company.

## 29. CONTINGENCIES

**Legal and regulatory cases**
On 17 October 2014 the European Commission sent an infringement decision to the Company in case AT 39.523 (hereinafter “the Decision”). The Decision found the Company (and DT AG, as parent company) liable for breach of competition law (margin squeeze and refusal to deal) in relation to ULL for the period 12 August 2005 – 31 December 2010 and imposed a fine of EUR 38,838 thousand on DT AG and the Company, jointly and severally. On 26 December 2014 the Company filed an appeal against the Decision to the General Court of the European Union. The fine was paid by the Company in January 2015.

Following the European Commission's decision, three competitors of the Company filed action against Slovak Telekom with the civil court in Bratislava in 2015, one of the claimants withdrew its action in 2017. Another damage claim action was filed in 2017. These claims seek compensation for damages allegedly incurred due to Company's abuse of its dominant market position, as determined by the European Commission and amount to EUR 174,008 thousand plus interest. Other competitors that believe they have been harmed by the Company anti-competitive conduct during the infringement period may decide to file actions for damages as well.

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

In 2013, two competitors filed actions against Company seeking damages allegedly incurred due to Company's conduct as determined by the AMO, third competitor filed similar action in 2015. The claimants contend that they incurred lost profit amounting to EUR 137,667 thousand plus interest. All three proceedings before the first instance District Court Bratislava II are currently suspended pending the outcome of judicial review of the underlying AMO decisions. In one of the proceedings the claimant filed a motion to resume proceedings.

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

As at 31 December 2017, the Company recognised provision for known and quantifiable risks related to proceedings against the Company, which represent the Company's best estimate of the amounts, which are more likely than not to be paid. The actual amounts of penalties, if any, are dependent on a number of future events the outcome of which is uncertain, and, as a consequence, the amount of provision may change at a future date.

## 30. AUDIT FEES

In 2017 the Company obtained from the audit company PricewaterhouseCoopers Slovensko, s.r.o. audit services in amount of EUR 281 thousand (2016: EUR 234 thousand) and other non-audit services in amount of EUR 548 thousand (2016: EUR 80 thousand).

## 31. EVENTS AFTER THE REPORTING PERIOD

On 25 January 2018 the subsidiary of the Slovak Telekom PosAm acquired 100% share in the company Commander Services s.r.o. Main activity of the new subsidiary is GPS monitoring of the motor vehicles.

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 2017.

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